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E.ON: Summary of Financials

Profit & loss statement

€ million, year-end 31 December

	FY06A	FY07E	FY08E	FY09E	FY10E
Sales	67,759	60,229	70,315	82,854	89,444
Gross Operating Profit	11,353	12,182	14,813	16,558	17,354
Depreciation & Amortisation	(3,203)	(3,174)	(3,766)	(3,972)	(4,173)
Operating Profit	8,150	9,007	11,046	12,586	13,181
Non-operating income	(1,936)	1,355	0	0	0
Finance costs - net	(1,081)	(1,021)	(1,340)	(1,777)	(1,895)
Profit before tax	5,133	9,341	9,706	10,809	11,286
Income tax	323	(2,316)	(2,815)	(3,243)	(3,386)
Minority interests	(526)	(669)	(726)	(764)	(784)
Discontinued items	127	0	0	0	0
Group net profit	5,057	6,356	6,166	6,802	7,116

Cashflow statement

€ million, year-end 31 December

	FY06A	FY07E	FY08E	FY09E	FY10E
Funds from operations	8,455	8,505	12,206	13,825	13,449
Working Capital	(1,261)	741	(1,345)	(1,529)	(792)
Cash from operations	7,194	9,247	10,861	12,097	12,657
Capex & acquisitions	(1,207)	(7,490)	(21,109)	(11,680)	(11,801)
Other investing cash flows	(3,294)	0	0	0	0
Cash from investing	(4,501)	(7,490)	(21,109)	(11,680)	(11,801)
Dividends	(4,856)	(2,503)	(3,065)	(3,718)	(4,074)
Cash from financing	(5,849)	(1,463)	9,975	282	(1,074)
Free cash flow before dividends	2,480	(2,511)	(14,542)	65	495
Free cash flow, adjusted	(2,306)	(3,257)	(15,289)	(673)	(244)

Balance sheet

€ million, year-end 31 December

	FY06A	FY07E	FY08E	FY09E	FY10E
Fixed assets	96,344	100,681	118,194	126,073	133,873
Current assets	30,888	28,950	30,807	34,172	35,356
Total assets	127,232	129,630	149,002	160,245	169,229
Total debt	13,399	18,217	35,217	39,217	42,217
Total equity	52,878	51,612	53,860	60,721	66,841
Other liabilities	60,955	59,801	59,924	60,307	60,171
Total liabilities	127,232	129,630	149,002	160,245	169,229
Net debt	268	4,792	22,065	25,366	28,585
Capital employed	53,146	56,404	75,925	86,088	95,426

Source: Company data, JP Morgan estimates

Valuation ratios

x

	FY06A	FY07E	FY08E	FY09E	FY10E
Unadjusted	17.2x	14.7x	11.3x	10.0x	9.5x
P/E (recurrent)	14.9x	11.5x	11.3x	10.0x	9.5x
P/E (reported)	1.6x	1.5x	1.4x	1.2x	1.1x
Price to book value	9.3x	8.9x	8.2x	7.4x	7.2x
EV / EBITDA	13.0x	12.0x	11.0x	9.7x	9.4x
EV / EBIT	-3.1%	-4.4%	-22.0%	-1.0%	-0.4%
FCF yield (pre divs, post mins) %	2.9%	3.8%	5.0%	5.5%	6.3%
Dividend yield %					

Per share

€

	FY06A	FY07E	FY08E	FY09E	FY10E
Recurrent EPS	6.65	7.78	10.11	11.46	11.99
Reported EPS	7.67	9.88	10.11	11.46	11.99
Reported DPS	3.35	4.39	5.71	6.30	7.19
Adjusted Free Cash Flow	(3.50)	(5.06)	(25.06)	(1.13)	(0.41)

Performance, leverage and return ratios

%

	FY06A	FY07E	FY08E	FY09E	FY10E
Gross operating margin	16.8%	20.2%	21.1%	20.0%	19.4%
Operating margin	12.0%	15.0%	15.7%	15.2%	14.7%
Operating profit growth y-o-y	11.1%	10.5%	22.6%	13.9%	4.7%
Recurrent income growth y-o-y	20.5%	14.0%	23.3%	10.3%	4.6%
Reported RoE	10.6%	13.6%	12.8%	12.5%	11.8%
RoCE (EBIT)	11.7%	18.4%	14.5%	14.6%	13.8%
Net debt / (equity+minorities) %	0.5%	9.3%	41.0%	41.8%	42.8%
Net debt / EBITDA %	3%	35%	149%	153%	165%
EBITDA / net interest	8.4x	8.2x	7.5x	6.8x	6.7x
Reported net income / dividends	2.3x	2.3x	1.8x	1.8x	1.7x

Market valuation

€ million

	FY06A	FY07E	FY08E	FY09E	FY10E
Share price (year-end / current)	114.1	114.1	114.1	114.1	114.1
Number of shares (million)	659	643	610	594	594
Market capitalisation	75,235	73,377	69,612	67,729	67,729
EV adjustment	30,710	34,866	51,561	54,230	56,768
Enterprise value	105,945	108,244	121,174	121,959	124,497

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€ million, year-end 31 December

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Free cash flow, adjusted	(2,306)	(3,257)	(15,289)	(673)	(244)

Balance sheet

€ million, year-end 31 December

	FY06A	FY07E	FY08E	FY09E	FY10E
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Total debt	13,399	18,217	35,217	39,217	42,217
Total equity	52,878	51,612	53,860	60,721	66,841
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Total liabilities	127,232	129,630	149,002	160,245	169,229
Net debt	268	4,792	22,065	25,366	28,585
Capital employed	53,146	56,404	75,925	86,088	95,426

Source: Company data, JP Morgan estimates

Valuation ratios

x

Unadjusted	FY06A	FY07E	FY08E	FY09E	FY10E
P/E (recurrent)	17.7x	15.1x	11.7x	10.3x	9.8x
P/E (reported)	15.4x	11.9x	11.7x	10.3x	9.8x
Price to book value	1.6x	1.6x	1.5x	1.3x	1.2x
EV / EBITDA	9.5x	9.1x	8.3x	7.5x	7.3x
EV / EBIT	13.3x	12.3x	11.2x	9.9x	9.6x
FCF yield (pre divs, post mins) %	-3.0%	-4.3%	-21.3%	-1.0%	-0.3%
Dividend yield %	2.8%	3.7%	4.8%	5.4%	6.1%

Per share

€

	FY06A	FY07E	FY08E	FY09E	FY10E
Recurrent EPS	6.65	7.78	10.11	11.46	11.99
Reported EPS	7.67	9.88	10.11	11.46	11.99
Reported DPS	3.35	4.39	5.71	6.30	7.19
Adjusted Free Cash Flow	(3.50)	(5.06)	(25.06)	(1.13)	(0.41)

Performance, leverage and return ratios

%

	FY06A	FY07E	FY08E	FY09E	FY10E
Gross operating margin	16.8%	20.2%	21.1%	20.0%	19.4%
Operating margin	12.0%	15.0%	15.7%	15.2%	14.7%
Operating profit growth y-o-y	11.1%	10.5%	22.6%	13.9%	4.7%
Recurrent income growth y-o-y	20.5%	14.0%	23.3%	10.3%	4.6%
Reported RoE	10.6%	13.6%	12.8%	12.5%	11.8%
RoCE (EBIT)	11.7%	18.4%	14.5%	14.6%	13.8%
Net debt / (equity+minorities) %	0.5%	9.3%	41.0%	41.8%	42.8%
Net debt / EBITDA %	3%	35%	149%	153%	165%
EBITDA / net interest	8.4x	8.2x	7.5x	6.8x	6.7x
Reported net income / dividends	2.3x	2.3x	1.8x	1.8x	1.7x

Market valuation

€ million

	FY06A	FY07E	FY08E	FY09E	FY10E
Share price (year-end / current)	117.8	117.8	117.8	117.8	117.8
Number of shares (million)	659	643	610	594	594
Market capitalisation	77,674	75,757	71,869	69,926	69,926
EV adjustment	30,710	34,866	51,561	54,230	56,768
Enterprise value	108,384	110,623	123,431	124,156	126,693

Strategy shift

Following detailed discussions with the company on its new financial strategy we have upgraded our rating to Buy from Hold. **E.ON** looks inexpensive on our revised numbers, trading at a 26% and 21% sector discount on 2009F PE and EV/EBITDA.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (€m)	51600	64091	64067	68308	69836
EBITDA (€m)	10194	11789	12518	13639	15619▲
Reported net profit (€m)	4301	4682	5355	5572	6451▲
Normalised net profit (€m)	4301	4682	5355	5572	6451▲
Normalised EPS (€)	6.52	7.10	8.48▲	9.23▲	10.7▲
Dividend per share (€)	2.75	3.35	3.99	4.74▲	5.64▲
Dividend yield (%)	2.24	2.73	3.25	3.87	4.60
Normalised PE (x)	18.8	17.3	14.5	13.3	11.5
EV/EBITDA (x)	10.4	7.82	6.95	6.88	6.35
EV/invested capital (x)	1.35	1.20	1.12	1.07	1.03
ROIC - WACC (%)	0.22	1.75	2.10	2.67	2.47

Accounting Standard: IFRS
Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

What has changed

We increase our price target on E.ON from €120 to €151 and upgrade our recommendation from Hold to Buy. The main positive factors behind this increase are: 1) higher assumed long-term German electricity prices (€64/MWh vs €52/MWh), accounting for a €19.8/share-higher valuation. We have also increased our long-term electricity price forecasts in the UK (up €7.4/share), the Nordic region (up €3.0/share) and Italy (up €2.9/share); 2) €500m of efficiency measures we assume until 2010, worth €8.1/share; 3) lower provisions (€5.6/share), in line with updated guidance; and 4) other factors resulting in a €5.4/share valuation increase. A higher WACC (-€13.1/share) and a stricter carbon regime with zero free allocations from 2013F onwards are the main negative factors.

New financial strategy

We see the new financial strategy that E.ON outlined on 31 May as a turning point for the company. In our view, E.ON's new targets clearly address the issue of the inefficient balance sheet, provide a roadmap for increased value return to shareholders and lay out a strategy for increasing operating profitability. We believe there are three developments the market needs to focus on: 1) E.ON's guidance of optimal gearing and a clear plan for how to achieve it through a combination of share buybacks, organic investment, a higher dividend and small- to medium-size acquisitions (our model reflects €7bn of share buybacks until 2008F and annual DPS growth of 19% until 2010F, in line with E.ON's guidance); 2) E.ON's EBIT target of €12.4bn for 2010 (our forecasts reflect €500m of efficiency measures and company guidance); and 3) E.ON's commitment to manage its asset portfolio more actively.

E.ON looks inexpensive vs sector on multiples

We believe E.ON looks inexpensive, trading at a 26% discount to the sector on 2009F PE and at a 21% discount on 2009F EV/EBITDA. At our target price, E.ON would offer an average 2007-2020F equity free cash flow yield of 7.5% (30bp less than our assumed cost of equity).

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Priced at close of business 6 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

250 Bishopsgate, London, EC2M 4AA, United Kingdom

Buy (from Hold)

Absolute performance

n/a

Short term (0-60 days)

Neutral

Sector relative to market

Germany

Utilities

Price

€122.61

Target price

€151.00 (from €120.00)

Market capitalisation

€80.89bn

Avg (12mth) daily turnover

€457.69m

Reuters

EONG.DE

Bloomberg

EOA.GR

Asset allocation

Equities

Overweight

Cash

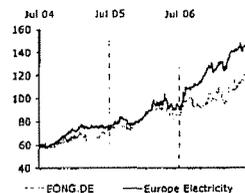
Neutral

Bonds

Underweight

Price performance (1M) (3M) (12M)

Price (€)	116.3	108.8	90.0
Absolute %	5.4	12.7	36.2
Rel market %	3.3	7.2	10.9
Rel sector %	1.8	6.0	-13.3



Stock borrowing: Easy

Volatility (30-day): 30.69%

Volatility (6-month trend): ↑

52-week range: 125.41-85.10

FTSE Eurotop 300 Index: 1619.83

Europe Electricity: 320.80

Source: ABN AMRO, Bloomberg

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The Basics

Key assumptions

We see a flat real long-term electricity price of €64/MWh in Germany from 2011F, which, in our view, represents the new entrant level. We expect the nuclear law to be abandoned in Germany and a 40-year asset life to be used for nuclear plants. In our model we include a real 4% cut in German network tariffs in 2008F. We assume a 0.75% increase in network tariffs per annum between 2009F and 2015F, and a 1.5% rise from 2016F. Our model includes €500m of efficiency measures until 2010F, in line with E.ON's guidance. We forecast EBIT margins in electricity and gas supply will experience a gradual change, from 1% in 2008 to 5% in 2020. Our model includes E.ON's planned acquisition of French, Italian and Spanish assets from Enel. We assume this acquisition is completed at 2H08 for €11bn. Our model also includes €9.2bn of organic growth investment relating to generation projects and €7bn of share buybacks until 2008. We assume a full recovery of the UK generation market in 2010, with clean spark spreads of £11.0/MWh. In the Nordic unit, we see wholesale electricity prices increasing from €42.0/MWh in 2007F to €57.2/MWh in 2020F.

How we differ from consensus

The key areas where we differ from consensus are the €500m of assumed efficiency measures, which account for a €8.1/share uplift; the increase in German supply margins (€5.9/share); the higher realised German (€4.9/share) and UK (€1.0/share) wholesale electricity prices; and the impact of E.ON's increased organic investment programme (€4.4/share). A stricter carbon regime results in a -€2.1/share difference.

Valuation and target price

Our valuation for E.ON is based on a sum-of-the-parts methodology. We have modelled all of E.ON's German and UK generation plants until the end of their asset life with no terminal value. This includes the decommissioning of all nuclear power plants. We value the other parts of E.ON's business using rate-of-change analysis. This applies changes in prices, costs, etc. to a base-line year instead of using full bottom-up analysis. We see our €151 target price as reasonable on the basis that one should assume a perpetual cash flow decline of 2.1% pa after 2020 to arrive at today's share price (a 0.3% perpetual increase at our target price).

Catalysts for share price performance

Given the fact that we are 8%, 6% and 10% above consensus on 2007F, 2008F and 2009F EPS we see all results announcements related to FY07 as catalysts for E.ON, as they should provide further clarity on 2007 and 2008 performance. Any news flow relating to E.ON's €36bn of growth investment over 2007-10F should also be an important driver, particularly in the case of small- to medium-size acquisitions.

Risks to central scenario

Every €1/MWh deviation from our €64/MWh real long-term electricity price forecast has a €1.6/share impact on our target price. If the nuclear law is not abandoned in Germany, we estimate it will have a €12.6 negative impact on our target price. If E.ON's efficiency targets are not reached, our valuation would be reduced by €8.1/share. In case the uplift in German residential EBIT margins does not materialise, our valuation would be reduced by €5.9/share. A regulation of German gas transmission, with a 15% real cut in 2008F, would negatively affect our price target by €4.2/share.

Versus consensus

EPS (adjusted)	AMRO	Cons	% diff
2007F	8.48	7.84	8%
2008F	9.23	8.68	6%
2009F	10.68	9.70	10%

Source: Bloomberg, ABN AMRO forecasts

Key events

Date	Event
15-Aug-07	1H07 results
20-Sep-07	Capital markets day (Eastern Europe)
13-Nov-07	9M07 results
06-Mar-08	FY07 results

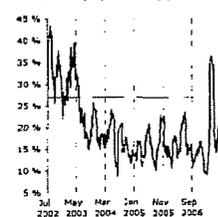
Source: Company

Forced ranking*

		Upside/ Rec.	Downside
British Energy	Buy	47%	
RWE	Buy	34%	
E.ON	Buy	23%	
Snam Rete Gas	Hold	6%	
EDF	Buy	5%	
Centrica	Hold	0%	
IPR	Buy	-1%	
Enel	Hold	-5%	
Drax	Hold	-11%	
SSE	Hold	-16%	

* By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosures page.
Source: ABN AMRO forecasts

Volatility (30-day)



Source: Bloomberg

Key assumptions and sensitivities

Our key sensitivities for E.ON relate to the German operations (around 62% of EV). These assumptions are related to the long-term realised wholesale electricity price and network tariffs in Germany.

Table 1 : E.ON – Key assumptions and sensitivities

Variable	Our assumption	Flex	Valuation impact (€)
Central Europe			
Achieved wholesale electricity price, 2007F-10F (€/MWh)	47.0-59.5	1.0	0.3
Achieved wholesale electricity price, 2011F-20F (€/MWh)	64.0-75.9	1.0	1.6
Carbon allocation NAP II, 2008F-12F	60%	10%	0.1
Carbon allocation from 2013F	0%	1%	0.1
German nuclear asset life extensions	Yes	No	-12.6
Network tariff reduction (real), 2008F	-4.0%	-1.0%	-1.0
Increase in electricity and gas network tariffs, 2009F-15F	0.75%	1%	6.1
Increase in electricity and gas network tariffs from 2016F	1.5%	1%	3.1
Recovery in supply margins	Yes	No	-5.9
Electricity and gas supply EBIT margins, 2008F-20F	1.0-5.0%	1%	1.1
EBIT CAGR Central Europe East, 2006A-20F	3.2%	1%	0.7
WACC Central Europe generation	6.3%	+10bp	-0.7
WACC Central Europe German electricity/gas distribution/transmission/supply	6.1%	+10bp	-0.6
WACC Central Europe East	6.3%	+10bp	-0.1
Pan European Gas			
Gas transmission in Germany regulated from 2008F (15% real tariff cut in 2008F)	No	Yes	-4.2
Growth in midstream gas volumes transported, 2006A-20F	0.50%	1%	3.3
Upstream gas price, oil-price linked from 2009F	US\$45/bbl oil	US\$1/bbl oil	0.1
EBIT CAGR downstream shareholdings, 2006A-20F	0%	1%	0.8
WACC Pan European Gas	6.3%	+10bp	-0.5
UK			
Allowed (vanilla) return for future price controls	5.5%	20bp	0.1
Implied clean spark spread (£/MWh) from 2010	11.0	1.0	0.6
Implied clean dark spread (£/MWh) from 2010	9.9	1.0	0.5
Average EBIT margin Powergen residential supply, 2007F-20F	5.9%	1%	0.9
Average EBIT margin Powergen business supply, 2007F-20F	4.7%	1%	0.6
Carbon allocation NAP II, 2008F-12F	61%	5%	0.1
Carbon allocation from 2013F	0%	1%	0.1
WACC UK regulated business	6.3%	+20bp	-0.1
WACC UK generation/supply	7.0%	+20bp	-0.7
Nordic			
Wholesale electricity price, 2007F-20F	42.0-57.2	1.0	0.6
Tariff increase regulated activities, 2006A-20F	2.00%	1%	0.8
WACC Nordic regulated business	6.2%	+30bp	-0.1
WACC Nordic unregulated business	6.3%	+10bp	-0.3
US Midwest			
Disposal proceeds (€bn)	4.9	0.2	0.3
France/Italy/Spain			
Purchase Enel/Endesa assets	Yes	No	-2.0
Purchase EV (€bn)	11.0	0.2	0.3
EBIT CAGR, 2008F-20F	1.5%	1%	1.0
WACC France/Italy/Spain	6.3%	+20bp	-0.3

Source: Company data, ABN AMRO forecasts

Table 2 : E.ON – key assumptions and sensitivities (cont)

Variable	Our assumption	Flex	Valuation impact (€)
Group			
Change in long-term oil price assumption underlying model	US\$45/bbl	US\$1/bbl	1.6
Realisation efficiency programme	Yes	No	-8.1
Realisation increased investment programme	Yes	No	-4.4
Average exchange rate £/€, 2007F-20F	0.67	2%	0.3
Average exchange rate US\$/€, 2007F-20F	1.35	1%	0.3
Average exchange rate SKr/€, 2007F-20F	8.16	2%	0.3
Cost of carbon emission (€/tonne) from 2008 (real)	25	+1	0.2
WACC	6.3%	+10bp	-2.6

Source: Company data, ABN AMRO forecasts

Table 3 : E.ON – sum-of-the-parts valuation*

Division	Value (€m)	Per share	Proportion of value	Comparator	Measure
Central Europe - generation	39,373	59.7	32%	1,300	€/kW
Central Europe - D/T/S	14,833	22.5	12%	7.6%	NOPAT (20F) / EV
Central Europe - gas	4,999	7.6	4%	6.0%	NOPAT (20F) / EV
Central Europe - east	3,542	5.4	3%	8.3%	NOPAT (20F) / EV
Central Europe - other/consolidation	757	1.1	1%		
Central Europe market unit	63,504	96.3	52%	9.3x	2008F EBITDA
Pan European gas upstream/downstream	15,466	23.4	13%	7.9x	2008F EBITDA
Pan European gas downstream shareholdings	5,938	9.0	5%	7.3x	2008F EBITDA
Pan European gas other/consolidation	(16)	0.0	0%		
Pan European gas market unit	21,388	32.4	18%	7.8x	2008F EBITDA
UK - regulated business	4,099	6.2	3%	121%	2007F RAB
UK - residential supply	3,026	4.6	2%		€/customer
UK - business supply	1,425	2.2	1%	6.6%	NOPAT (20F) / EV
UK - generation	5,955	9.0	5%	502	€/kW
UK - other/consolidation	(1,106)	-1.7	-1%		
UK market unit	13,399	20.3	11%	7.4x	08F EBITDA
Nordic - regulated business	2,551	3.9	2%	7.4%	NOPAT (20F) / EV
Nordic - unregulated business	8,534	12.9	7%	8.2x	2008F EBITDA
Nordic - other consolidation	(221)	-0.3	0%		
Nordic market unit	10,863	16.5	9%	7.8x	2008F EBITDA
US Midwest market unit	4,882	7.4	4%	9.0x	2008F EBITDA
Corporate center	(4,218)	-6.4	-3%		
France/Italy/Spain	11,529	17.5	10%	7.9x	2008F EBITDA (adjusted)
Total EV	121,347	183.9	100%	8.4x	2008F EBITDA
Net debt	(440)	-0.7	0%		1Q07 net debt including FY06 dividend
Debt related to France, Italy and Spain	(10,197)	-15.5	-8%		Discounted acquisition EV
Other equity investments	1,584	2.4	1%		1Q07 other equity investments
Gazprom stake	11,930	18.1	10%		Current market value of Gazprom
Provisions	(17,515)	-26.5	-14%		1Q07 EV relevant provisions
Minorities	(7,068)	-10.7	-6%	13.0x	FY07 minority interest
Equity value	99,641	151.0	82%		
Number of shares	659.8				
Equity value (€ per share)	151.0				

*Valuation as at 1 April 2007.
Source: ABN AMRO forecasts

Sum of the parts/valuation metrics

In this section we provide a breakdown of our sum-of-the-parts valuation for E.ON. We also examine in more detail the various valuation metrics (PE, FCF-yield, EV/EBITDA, etc.) that underlie our €151 target price.

Sum of the parts

The following table shows our sum-of-the-parts analysis for E.ON. To value the company we use a combination of rate-of-change analysis and a valuation of the generation assets in Germany and the UK until the end of their asset life, including decommissioning.

Table 7 : E.ON – sum-of-the-parts valuation *

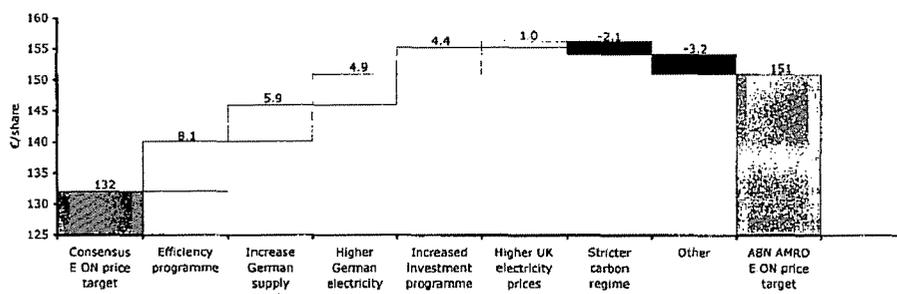
Division	Value (€m)	Per share	Proportion of value	Comparator	Measure
Central Europe - generation	39,373	59.7	32%	1,300	€/kW
Central Europe - D/T/S	14,833	22.5	12%	7.6%	NOPAT (20F) / EV
Central Europe - gas	4,999	7.6	4%	6.0%	NOPAT (20F) / EV
Central Europe - east	3,542	5.4	3%	8.3%	NOPAT (20F) / EV
Central Europe - other/consolidation	757	1.1	1%		
Central Europe market unit	63,504	96.3	52%	9.3x	2008F EBITDA
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Pan European gas other/consolidation	(16)	0.0	0%		
Pan European gas market unit	21,388	32.4	18%	7.8x	2008F EBITDA
UK - regulated business	4,099	6.2	3%	121%	2007F RAB
UK - residential supply	3,026	4.6	2%	264	€/customer
UK - business supply	1,425	2.2	1%	6.6%	NOPAT (20F) / EV
UK - generation	5,955	9.0	5%	502	€/kW
UK - other/consolidation	(1,106)	-1.7	-1%		
UK market unit	13,399	20.3	11%	7.4x	2008F EBITDA
Nordic - regulated business	2,551	3.9	2%	7.4%	NOPAT (20F) / EV
Nordic - unregulated business	8,534	12.9	7%	8.2x	2008F EBITDA
Nordic - other consolidation	(221)	-0.3	0%		
Nordic market unit	10,863	16.5	9%	7.8x	2008F EBITDA
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France/Italy/Spain	11,529	17.5	10%	7.9x	2008F EBITDA (adjusted)
Total EV	121,347	183.9	100%	8.4x	2008F EBITDA
Net debt	(440)	-0.7	0%		1Q07 net debt including FY06 dividend
Debt related to France, Italy and Spain	(10,197)	-15.5	-8%		Discounted acquisition EV
Other equity investments	1,584	2.4	1%		1Q07 other equity investments
Gazprom stake	11,930	18.1	10%		Current market value of Gazprom
Provisions	(17,515)	-26.5	-14%		1Q07 EV relevant provisions
Minorities	(7,068)	-10.7	-6%	13.0x	FY07 minority interest
Equity value	99,641	151.0	82%		
Number of shares	659.8				
Equity value (€ per share)	151.0				

*Valuation as at 1 April 2007.
Source: ABN AMRO Forecasts

There are a number of reasons why our price target exceeds the consensus target price of €132 for E.ON. The main reasons for the difference are our assumptions that

E.ON will achieve of €500m in efficiency measures until 2010 and that German supply margins will increase. Other positive factors are the valuation uplift we see from higher assumed long-term electricity prices in Germany and the UK, and the impact of E.ON's organic investment programme over 2007-10F. We believe our carbon assumptions for E.ON are among the most rigorous in the market, with a €25/tonne long-term CO₂ price and 0% free allocations from 2013F. Hence, we assign a €2.1/share higher negative valuation impact than consensus for E.ON.

Chart 3 : Comparison between ABN AMRO and sell-side consensus target price for E.ON



Source: Bloomberg consensus, ABN AMRO forecasts

Valuation metrics

At its current share price, E.ON looks inexpensive on our PE, dividend yield and EV/EBITDA forecasts compared with the sector on Bloomberg consensus estimates. This supports the 23% potential upside that we see. Based on our forecasts, E.ON is trading at a premium to RWE. This supports our view that at current prices RWE offers more upside potential (+34%) to our €106 price target than E.ON.

E.ON looks inexpensive on valuation metrics

Table 8 : E.ON - valuation metrics vs sector and RWE

	2007F	2008F	2009F
E.ON (€122.61)			
PE (x)	14.5	13.3	11.5
Dividend yield	3.3%	3.9%	4.6%
EV/EBITDA (x)	7.0	6.9	6.4
RWE (€79.06)			
PE (x)	12.7	11.3	9.7
Dividend yield	5.5%	6.1%	6.8%
EV/EBITDA (x)	7.3	6.6	6.1
Sector			
PE (x)	18.1	16.4	15.6
Dividend yield	3.3%	3.5%	3.7%
EV/EBITDA (x)	8.9	8.3	8.0
Premium/(discount) vs sector			
PE	-20%	-19%	-26%
Dividend yield	-1%	10%	24%
EV/EBITDA	-22%	-17%	-21%
Premium/(discount) vs E.ON			
PE	13%	18%	19%
Dividend yield	41%	37%	32%
EV/EBITDA	-5%	5%	4%

Source: ABN AMRO forecasts, Bloomberg for sector averages

The following table shows the 2008F EV/EBITDA multiples of E.ON's different business units at our €151 target price. We believe these multiples support our target price.

Table 9 : E.ON – 2008F EV/EBITDA multiples at a target price of €151

	EV at €151 (€m)	2008F EBITDA (€m)	2008F EV/EBITDA (x)
Central Europe market unit	63,504	6,803	9.3
Pan European gas market unit	21,388	2,752	7.8
UK market unit	13,399	1,821	7.4
Nordic market unit	10,863	1,397	7.8
US Midwest market unit	4,882	542	9.0
Corporate Center	-4,218	-406	n/a
France/Italy/Spain (adjusted)	11,529	1,461	7.9
Total EV	121,347	14,370	8.4

Source: ABN AMRO forecasts

Equity free cash flow yield

The following tables show our equity free cash flow calculation for E.ON. At the current share price of €122.6, the average equity free cash flow yield over our 2007-20 forecast period is 9.2% (range 7.4-10.3%). This compares favourably with E.ON's assumed cost of equity of 7.8%. At our €151 target price, E.ON's average equity free cash flow yield over the same period would be 7.5%.

Table 10 : Equity free cash flow yield at current €122.6 share price – 9.2% average yield

	07F	08F	09F	10F	11F	12F	13F	14F	15F	16F	17F	18F	19F	20F	20F avg
Free cash flow	5,461	2,711	3,482	4,323	5,544	6,773	6,248	6,479	6,571	6,571	6,693	6,840	6,974	7,116	
Cash flow from operations	11,026	9,770	11,176	11,829	12,388	13,116	12,284	12,656	12,893	13,043	13,305	13,596	13,878	14,170	
Capex	- 5,565	- 7,059	- 7,694	- 7,506	- 6,844	- 6,344	- 6,035	- 6,177	- 6,322	- 6,471	- 6,612	- 6,756	- 6,904	- 7,055	
Free cash flow yield (equity)	6.8%	3.4%	4.3%	5.3%	6.9%	8.4%	7.7%	8.0%	8.1%	8.1%	8.3%	8.5%	8.6%	8.8%	7.2%
Free cash flow (maintenance)	7,666	6,019	7,058	7,514	7,856	8,342	7,279	7,452	7,486	7,426	7,475	7,548	7,606	7,671	
Free cash flow yield (maintenance)	9.5%	7.4%	8.7%	9.3%	9.7%	10.3%	9.0%	9.2%	9.3%	9.2%	9.2%	9.3%	9.4%	9.5%	9.2%

Source: ABN AMRO forecasts

Table 11 : Equity free cash flow yield at a target price of €151 – 7.5% average yield

€m	07F	08F	09F	10F	11F	12F	13F	14F	15F	16F	17F	18F	19F	20F	20F avg
Free cash flow	5,461	2,711	3,482	4,323	5,544	6,773	6,248	6,479	6,571	6,571	6,693	6,840	6,974	7,116	
Cash flow from operations	11,026	9,770	11,176	11,829	12,388	13,116	12,284	12,656	12,893	13,043	13,305	13,596	13,878	14,170	
Capex	- 5,565	- 7,059	- 7,694	- 7,506	- 6,844	- 6,344	- 6,035	- 6,177	- 6,322	- 6,471	- 6,612	- 6,756	- 6,904	- 7,055	
Free cash flow yield (equity)	5.5%	2.7%	3.5%	4.3%	5.6%	6.8%	6.3%	6.5%	6.6%	6.6%	6.7%	6.9%	7.0%	7.1%	5.9%
Free cash flow (maintenance)	7,666	6,019	7,058	7,514	7,856	8,342	7,279	7,452	7,486	7,426	7,475	7,548	7,606	7,671	
Free cash flow yield (maintenance)	7.7%	6.0%	7.1%	7.5%	7.9%	8.4%	7.3%	7.5%	7.5%	7.5%	7.5%	7.6%	7.6%	7.7%	7.5%

Source: ABN AMRO forecasts

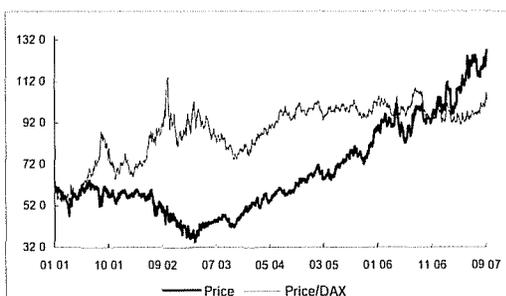
Germany

2/Outperform

21 September 2007 – Cap. Markets Day

Closing Price (20 09 07)	EUR126.7			
Target price	+5.8% EUR134			
Market capitalisation	EUR 79872 m			
DAX	7735.09			
To 31/12 (EUR)	2006	2007E	2008E	2009E
Sales (m)	67759.0	67755.4	77780.0	79523.0
Net att. profit, rest. (m)	5057.0	5696.1	5549.6	5880.7
Free Cash Flow (m)	4379.0	1808.3	(7845.8)	(591.5)
EBITDA margin (%)	16.8	17.5	18.2	18.9
Clean EPS	7.67	8.73	8.99	9.74
Reported EPS	7.67	8.73	8.99	9.74
P/E (x)	13.4	14.5	14.1	13.0
Attrib. FCF yield (%)	5.5	2.0	NS	NS
EV/EBITDA (x)	7.3	8.2	7.8	7.6
EV/EBIT (x)	10.2	11.0	10.3	10.0
ROCE (%)	11.6	11.8	11.6	11.5
ROE (%)	11.2	12.5	12.2	12.1
P/BV (x)	1.5	1.8	1.7	1.6
Net debt/EBITDA (x)	0.6	1.0	1.8	1.9
Net dividend	3.35	4.75	5.25	5.75
Yield (%)	3.3	3.7	4.1	4.5

Next event: Q3-07 results on 13 November



52-week range	EUR90.9-EUR127.45		
Free Float	EUR 68204 m		
No. of shares, adjusted	630.4 m		
Daily volume	EUR550.4 m		
Reuters/Bloomberg	EONG.DE/EOA GR		

	1 month	3 months	12 months
Absolute perf.	6.6%	4.5%	26.2%
Relative perf.	2.1%	9.3%	-2.8%

Shareholders : Free float 89.2%, E.ON 4.7%, Allianz 3.6%, State of Bavaria 2.5%

Disclosures are available on www.cheuvreux.com

E.ON

Electricity Utilities

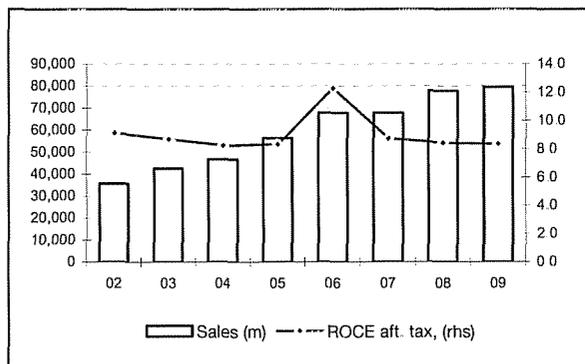
Wild Wild East

- ▶ At E.ON's CEE Capital Markets Day, mgmt addressed the **areas it targets for expansion**. In particular these are a) **Romanian** distribution, b) privatizations in **Poland** and c) privatizations in the **Adriatic** and **Western Balkan** region.
- ▶ The **focus is to build up generation capacity to hedge its own distribution**. E.ON currently has installed capacity of 350 MW, while its long-term goal to cover 50% of own demand with in-house generation implies around 4,000 MW. Mgmt also sees growth opportunities in the **build up of gas infrastructure** (storage and LNG) and **power and gas downstream**.
- ▶ We applaud E.ON's attempts to expand early in CEE. Given strong demand growth for both power and gas, we think the planned capex here will be money well/profitably spent, improving the **geographic diversification** of E.ON's business portfolio and making it **less dependent on German politics**.
- ▶ We also believe the stock's **downside is limited** by its **high dividend yield**. Assuming a payout ratio of ~58% (guided range: 50-60%), E.ON's yield is currently 4.1%, which will serve to protect the shares in a general equity market downturn.
- ▶ Finally, CEO Bernotat mentioned the EU Commission's **proposal regarding NAP III for 100% auctioning** from 2013 for all industries (not just utilities) will probably be revealed on 5 December 07. However, he **expects strong resistance** from several governments incl. Germany and doubts **full auctioning** can be achieved before **2020 and then only in steps**, which would be positive given the cash savings.

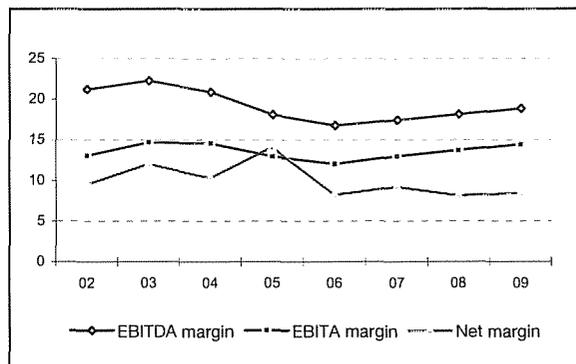
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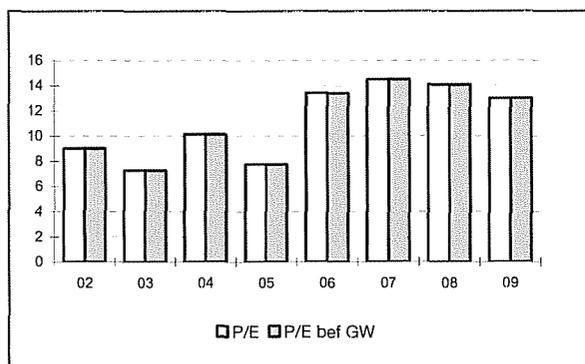
Sales & ROCE



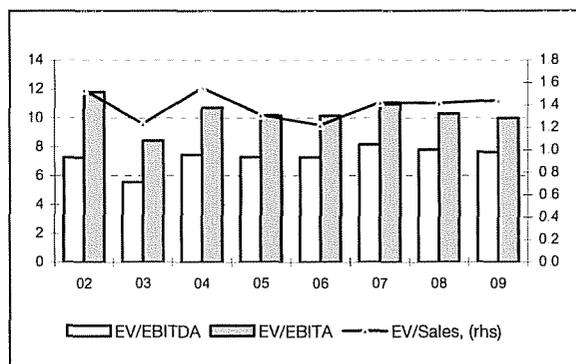
Margin / Trends (%)



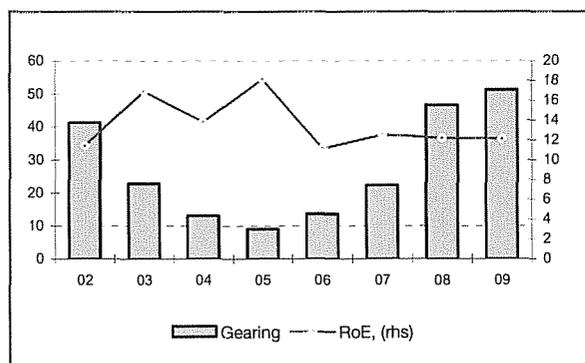
PE after and before goodwill



EV multiples



Gearing and Rest. ROE



SRI Issues

- With its hard coal and lignite power plants, E.ON is a major emitter of carbon dioxide and other greenhouse gases
- The company is engaged in the development of carbon-reducing generation techniques and is working to improve the efficiency of its power plants
- E.ON plans to reduce the emissions of its power plants by 10% by 2012

Peer group comparison

Peers	Rating	Mkt. cap. (EUR bn)	Performance (%)		Avg. EPS Grth 04-08, %	2008 Ratios (x)							
			1 m	12 m		P/E	P/CF	EV/EBITDA	EV/EBITA	Yield (%)	P/B (x)	ROE (%)	Gearing (%)
E.ON	2	79.87	+6.6	+26.2	+8.0	14.1	6.1	7.8	10.3	4.1	1.7	12.2	46.7
Endesa	3	42.38	+0.8	+37.7	+25.9	16.6	7.7	8.8	12.2	4.5	3.9	22.3	109.6
Enel	2	48.65	+7.0	+9.9	+9.1	12.9	6.5	8.2	11.5	6.2	2.9	21.3	241.7
Fortum	3	21.46	+5.6	+19.1	-0.4	18.3	13.9	12.1	15.6	3.5	2.8	15.4	42.1
Iberdrola	3	46.40	+1.9	+24.2	+19.0	16.1	9.0	9.6	13.6	3.6	2.4	14.5	120.9
RWE	2	48.23	+6.8	+19.9	+17.2	12.1	7.5	6.7	8.6	4.9	3.4	27.4	-51.3
Suez	2	50.07	+6.2	+14.1	+24.1	14.4	8.3	8.3	10.6	3.6	2.5	17.3	53.3

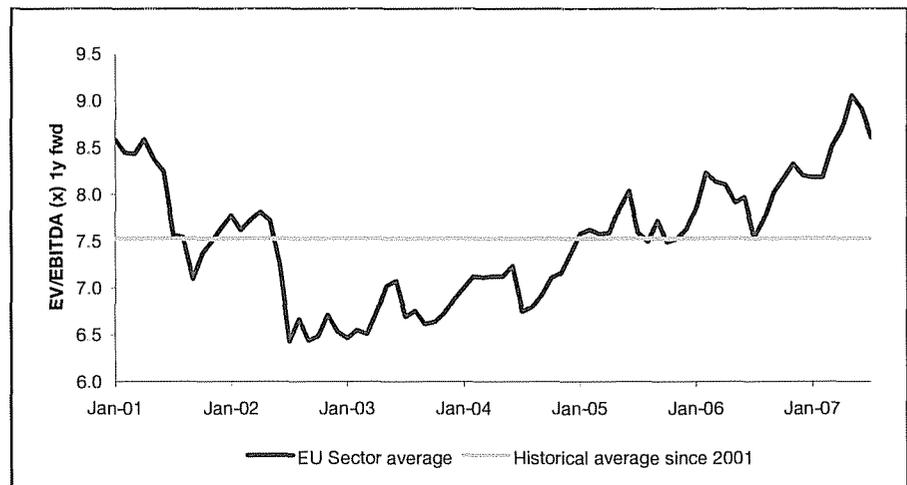
I – VALUATION

Due to inflated European peer multiples...

SOP indicates fair value of EUR134

We value E.ON using our DCF model for the European power generation unit (WACC of 6.5% and $g = 1.5\%$), and peer group multiples for the remaining businesses. With regards to the multiple-based part of our valuation, we apply a 10% discount to the current peer multiples as we think European valuations are currently inflated relative to historical standards, due in particular to M&A speculation.

European utility valuations high by historical standards



Source: JCF, Cheuvreux

...we apply discounts to peer multiples

The above chart shows the rolling one-year forward EV/EBITDA multiple for the period 2001-07. The grey horizontal line represents the average of recent years. As the chart shows, current valuations are close to their historical high, which is why we apply a 10% discount to arrive at a more sustainable multiple. Additionally, for Central Europe we apply an additional 10% discount (20% in all) to reflect the uncertainties of German politics and regulation.

The following table shows the details of our sum-of-the-parts valuation and how we arrive at our share price target of EUR134. Our main assumptions are:

- A gradual decrease in the wholesale base load price to EUR48 per MWh from 2010 in line with...
- An oil price of USD50 per barrel as forecasted by the Cheuvreux oil price team
- CO₂ costs of EUR20 per tonne
- We still expect a continuation of the current (2008-12) CO₂ allocation scheme

SOP indicates price target of EUR134 per share

Division	(EURm)	per share	EBITDA08E	EV/EBITDA (x)	Comment*
Central Europe	42 289	70.1	6 351	6.7	
. Power generation	19 639	32.5	3 269	6.0	DCF (WACC=6.5%)
. Transmission + Supply	22 650	37.5	3 082	7.3	EBITDA multiple plus 10% regulation discount
Pan-European Gas	23 935	39.7	2 869	8.3	EBITDA multiple
United Kingdom	16 521	27.4	1 999	8.3	EBITDA multiple
Nordic	10 558	17.5	1 277	8.3	EBITDA multiple
U.S. Midwest	4 860	8.1	588	8.3	EBITDA multiple
Endesa activities	11 858	19.6	1 435	8.3	EBITDA multiple
Holding	(2 993)	(5.0)	(395)	7.6	Average E.ON group multiple
Enterprise value	107 028	177.3	14 123	7.6	
Plus: financial assets	16 202	26.8			Book values 2006R
. Gazprom stake	11 900	19.7			
. Financial receivables	2 811	4.7			
. Other financial assets	1 491	2.5			
Minus: share buy-back	(7 000)	(11.6)			
Plus: net financial cash (debt)	(7 863)	(13.0)			Book values 2008E
. Interest-bearing debt	(22 229)	(36.8)			
. Cash and cash-equivalents	7 423	12.3			
. Long-term securities	6 944	11.5			
Less: provisions	(19 523)	(32.3)			Book values 2008E
. Pension provisions	(4 105)	(6.8)			
. Nuclear provisions	(13 646)	(22.6)			
. Mining provisions	(1 772)	(2.9)			
Net value	88 844	147.2			
Less: MV of minorities	(7 887)	(13.1)			10.0x 2008E minority interest
<i>As % of net value</i>	<i>8.9%</i>				
Target market capitalization	80 957				
Number of shares	659.6				Excluding treasury shares
Less: share buy-backs	(56.0)				Average share price of EUR125
Share price target (EUR)	134.12				

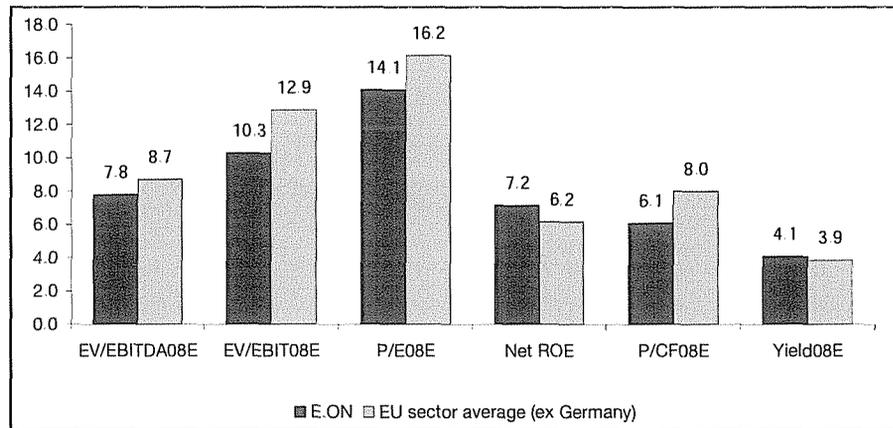
*All multiples already include a general 10% discount.

Source: E.ON, Cheuvreux estimates

Still inexpensive vs. peers

A glance at the peer group shows that E.ON is one of Europe's least expensive utility stocks based on EV/EBITDA, EV/EBIT, P/E and P/CF (all on a 2008 basis). Its average discount equates to around 17%, but the dividend yield is 6% above its peers.

E.ON still inexpensive vs. the sector



Source: Cheuvreux estimates

E.ON's low risk profile...

...is already taken into account to a large extent

On the following page we provide a more detailed table, which also reveals that with the exception of P/BV and P/CF, E.ON is more expensive than RWE. On the other hand, E.ON has a lower risk profile, due to its better geographic diversification, better diversification between electricity and gas, and lower exposure to CO₂ issues.

Note, however, that E.ON's lower risk profile is already reflected in its high P/BV ratio as compared to its rather low ROE. Today, E.ON's net ROE, i.e. ROE of 12.2% divided by P/BV of 1.7x, equates to just 7.2%. Assuming a risk-free rate of 4.7%, a market risk premium of 3.5% and a beta of 0.8, the group's cost of equity would stand at 7.5%. This is above the company's 7.2% net ROE, which we believe is depressed by the 6.4% stake in Gazprom, which hardly produces returns, but which we fully include in our valuation, and the market partly. By contrast, RWE's net return on equity is currently 8.3% (ROE of 27.4% divided by its P/BV of 3.3x).

In sum we believe that the comparison with the European peers reveals that the stock is indeed not expensive; however, upside beyond 10% from current levels should be limited.

European sector valuation

Company	Rating	Market Cap (EURm)	EV/EBITDA 2008E	EV/EBIT 2008E	P/E08E	P/BV08E	ROE08E	Net ROE	P/CF08E	Yield08E
ACEA	2/Outperform	2,810	6.6	10.4	14.4	2.2	14.6	6.6	6.5	5.4
AEM	2/Outperform	4,550	8.5	14.5	15.4	2.3	14.7	6.4	5.1	3.2
AGUAS DE BARCELONA	3/Underperform	3,960	8.9	12.9	17.4	1.9	11.1	5.8	7.3	2.2
ASM BRESCIA	2/Outperform	3,190	7.6	12.1	14.3	2.0	13.2	6.5	8.9	3.9
E.ON	2/Outperform	79,890	7.8	10.3	14.3	1.7	12.2	7.2	6.1	4.1
EDF	2/Outperform	135,100	10.7	17.6	26.8	5.2	19.4	3.7	10.5	1.9
EDP	3/Underperform	14,190	9.3	14.5	14.3	2.5	17.2	7.0	6.9	3.4
ENAGAS	1/Selected List	4,080	10.3	15.4	15.8	3.1	19.1	6.2	8.7	3.8
ENDESA	3/Underperform	42,370	8.8	12.2	16.6	3.9	23.3	6.0	7.7	4.5
ENEL	2/Outperform	47,260	8.1	11.3	12.5	2.9	21.3	7.5	6.3	6.4
FORTUM	3/Underperform	20,760	11.8	15.2	17.7	2.7	15.4	5.7	13.4	3.6
GAS NATURAL	3/Underperform	16,660	8.0	10.9	15.1	2.8	18.2	6.5	8.9	3.6
GAZ DE FRANCE	2/Outperform	33,660	7.0	9.8	12.5	1.9	15.4	8.0	7.6	4.1
HERA	2/Outperform	2,900	7.5	11.9	16.9	2.0	11.5	5.9	7.3	3.6
IBERDROLA	3/Underperform	43,890	9.2	13.1	15.2	2.2	14.5	6.5	8.5	3.8
IRIDE SPA	2/Outperform	2,250	8.4	13.3	19.2	1.8	9.3	5.2	7.9	3.0
RED ELECTRICA	1/Selected List	4,590	9.4	14.3	15.4	4.0	24.9	6.3	8.2	4.0
RWE	2/Outperform	46,830	6.5	8.4	11.7	3.3	27.4	8.3	7.2	5.1
SNAM RETE GAS	3/Underperform	8,660	9.6	14.0	15.0	2.3	13.3	5.7	7.4	5.3
SUEZ	2/Outperform	48,720	8.1	10.3	14.0	2.5	17.3	7.0	8.1	3.7
TERNA	3/Underperform	5,080	9.2	12.6	16.9	2.9	16.0	5.5	9.3	5.9
UNION FENOSA	2/Outperform	11,500	7.7	11.0	13.5	2.3	16.7	7.4	7.6	3.8
VEOLIA ENVIRONNEMENT	3/Underperform	23,280	8.7	13.6	20.8	4.8	22.0	4.6	6.2	2.4
EU sector average (ex Germany)			8.7	12.9	16.2	2.8	16.6	6.2	8.0	3.9
E.ON vs. average			-10.7%	-20.2%	-12.8%	-38.5%	-26.5%	15.9%	-23.9%	5.6%
RWE vs. average			-25.6%	-34.9%	-27.7%	19.0%	65.2%	34.6%	-10.2%	31.4%

Source: Cheuvreux estimates

Divisional forecasts

In the following table we summarise our expectations for E.ON's divisional operating results for the years 2007-09E and show how we derive our net income estimate.

Income Statement 2005 – 09E

(EURm)	2005R	2006R	2007E	2008E	2009E
Revenue	56 141	67 759	67 755	77 780	79 523
% change y-o-y	20.1%	20.7%	0.0%	14.8%	2.2%
EBITDA	10 194	11 353	11 828	14 123	15 020
% change y-o-y	4.7%	11.4%	4.2%	19.4%	6.3%
EBITDA margin	18.2%	16.8%	17.5%	18.2%	18.9%
o/w Central Europe	5 284	5 484	5 908	6 351	6 798
o/w Pan-European Gas	1 939	2 839	2 732	2 869	2 983
o/w United Kingdom	1 550	1 790	1 859	1 999	2 139
o/w Nordic	1 115	992	1 145	1 277	1 388
o/w U.S. Midwest	560	590	578	588	587
o/w Endesa assets	0	0	0	1 435	1 519
o/w Other	(254)	(342)	(395)	(395)	(395)
Depreciation	(2 901)	(3 203)	(3 018)	(3 417)	(3 520)
Adjusted EBIT	7 293	8 150	8 810	10 706	11 500
% change y-o-y	7.5%	11.8%	8.1%	21.5%	7.4%
EBIT margin	13.0%	12.0%	13.0%	13.8%	14.5%
o/w Central Europe	3 930	4 168	4 572	4 975	5 381
o/w Pan-European Gas	1 536	2 106	2 226	2 348	2 447
o/w United Kingdom	963	1 229	1 281	1 403	1 526
o/w Nordic	766	619	761	882	980
o/w U.S. Midwest	365	391	379	383	376
o/w Endesa assets	0	0	0	1 126	1 201
o/w Other	(267)	(363)	(410)	(411)	(411)
Non-operating result	886	(1 936)	730	0	0
Net financial expenses	(1 027)	(1 081)	(1 128)	(1 963)	(2 230)
Profit before taxes	7 152	5 133	8 412	8 743	9 270
Income taxes	(2 261)	323	(2 167)	(2 404)	(2 549)
As % of PBT	31.6%	-6.3%	25.8%	27.5%	27.5%
Discontinued operations	3 052	127	0	0	0
Minority interests	(536)	(526)	(548)	(789)	(840)
Net income	7 407	5 057	5 696	5 550	5 881
per share	11.24	7.67	8.73	9.00	9.74

Source: E.ON, Cheuvreux estimates

Consensus quite realistic

No significant
difference in EPS...

Comparing our forecasts with the Bloomberg consensus reveals only marginal differences in terms of net income and EPS for 2008-09E. Note that a 2007 EPS comparison is not very meaningful due to the different treatment of non-operating items such as the mark-to-market valuation of gas derivatives.

Cheuvreux vs. consensus

	2007E	2008E	2009E
Revenue (Cheuvreux)	67 755	77 780	79 523
Consensus	67 319	71 924	75 708
Cheuvreux vs. consensus	0.6%	8.1%	5.0%
EBITDA	11 828	14 123	15 020
Consensus	11 952	13 388	14 289
Cheuvreux vs. consensus	-1.0%	5.5%	5.1%
Adjusted EBIT	8 810	10 706	11 500
Consensus	8 735	9 753	10 367
Cheuvreux vs. consensus	0.9%	9.8%	10.9%
Net income	5 696	5 550	5 881
Consensus	5 347	5 605	5 901
Cheuvreux vs. consensus	6.5%	-1.0%	-0.3%
EPS	8.73	9.00	9.74
Consensus	7.87	8.82	9.50
Cheuvreux vs. consensus	10.9%	2.0%	2.6%
Dividend	4.75	5.25	5.75
Consensus	3.96	4.59	5.11
Cheuvreux vs. consensus	19.9%	14.3%	12.6%

Source: Bloomberg, Cheuvreux estimates

With regards to sales, EBITDA and EBIT, however, we observe for all three years a considerable deviation, which, however, we attribute largely to the fact that analysts differ in their treatment of the Endesa assets. We fully include those assets in our operating profit forecasts.

...but the market is underestimating the payout ratio

The only significant difference in our view is the assumed payout ratio. Whereas we think the company will pay out at the upper end of the 50-60% range, the market's expectations are more towards the lower end of this range. As a result, our dividend expectations are some 13-20% above consensus.

II – WILD WILD EAST

E.ON's presentation at its Capital Markets Day (on 20 September 07) focused on the company's current market position in Central and Eastern Europe (CEE), the tremendous growth rates offered by this region, and where the company targets further expansion in the future.

E.ON's rationale to be active in CEE can be summarized by the following three points:

- Opportunities to expand in a region with fast-growing energy demand
- Need for investments given the high maturity of the electricity and gas markets
- Future realization of synergies due to the further integration of the CEE energy markets

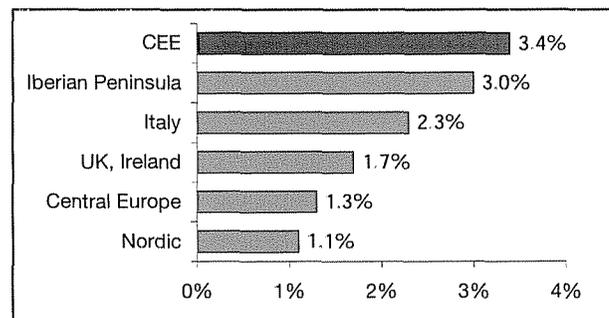
The following tables show E.ON's power demand CAGR forecasts for the years 2005-15E for various regions in Europe, as well as beginning (2005) and ending (2015) demand levels for each region.

Electricity demand growth...

Region	CAGR 2005-15	Demand 2005 (TWh)	Demand 2015 (TWh)
CEE	3.4%	386	539
Iberian Peninsula	3.0%	290	390
Italy	2.3%	302	379
UK, Ireland	1.7%	376	445
Central Europe	1.3%	1 249	1 421
Nordic	1.1%	362	404

Source: E.ON, Cheuvreux

...is highest in CEE



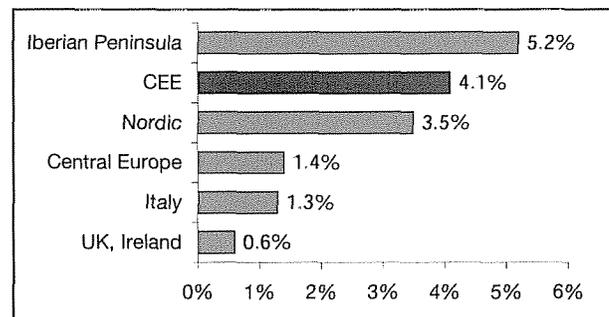
Source: E.ON, Cheuvreux

Gas demand growth...

Region	CAGR 2005-15	Demand 2005 (TWh)	Demand 2015 (TWh)
Iberian Peninsula	5.2%	373	619
CEE	4.1%	852	1 273
Nordic	3.5%	170	240
Central Europe	1.4%	2 391	2 748
Italy	1.3%	804	915
UK, Ireland	0.6%	1 209	1 284

Source: E.ON, Cheuvreux

...is also among the highest in CEE



Source: E.ON, Cheuvreux

In terms of power and gas, the table and chart shows CEE with the highest or second highest growth prospects in Europe with forecasted 3.4% p.a. growth in power and 4.1% p.a. growth in gas. Although the size of this still far below western Europe for instance, the differences will narrow over time.

In the past few years E.ON has already built up significant market share virtually throughout the entire region as the table below shows.

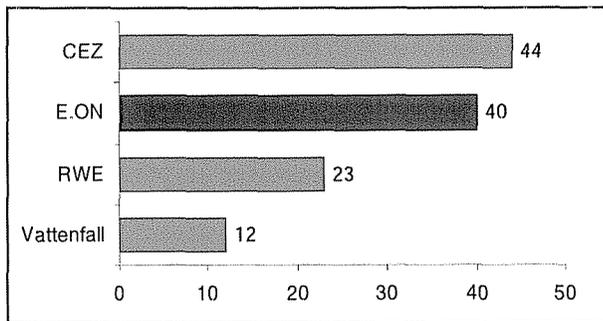
Considerable market share in virtually all regions

Region	Power market (TWh)	E.ON market share	Gas market (TWh)	E.ON market share
Czech Republic	59	21%	97	22%
Slovakia	26	15%	62	25%
Hungary	35	43%	150	32%
Baltics	23	3%	59	28%
Romania	44	8%	180	23%
Bulgaria	27	19%	N/A	0%

Source: E.ON, Cheuvreux

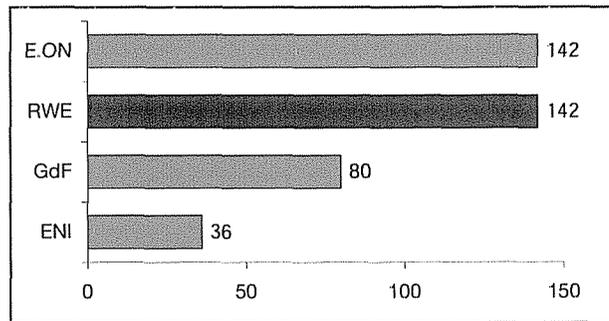
Despite already considerable market shares, the table also shows that E.ON still has room for improvement, which in many cases, however, is limited by the fact that further privatizations are still pending. Compared to other major European players, E.ON is always among the top players.

Retail power sales in CEE (TWh)



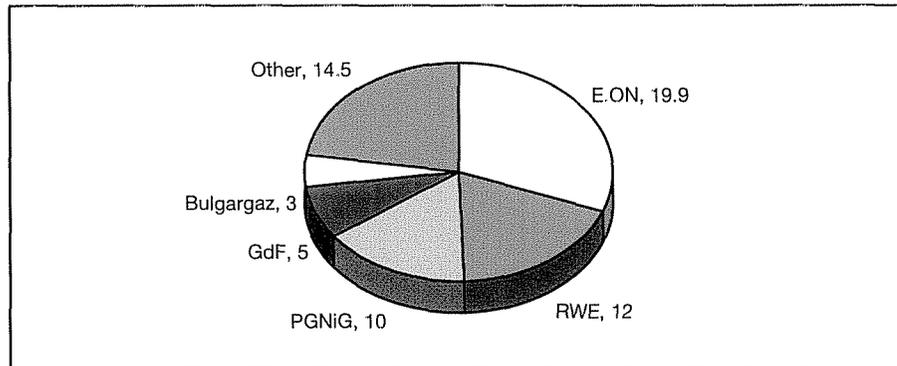
Source: E.ON, Cheuvreux

Retail gas sales in CEE (TWh)



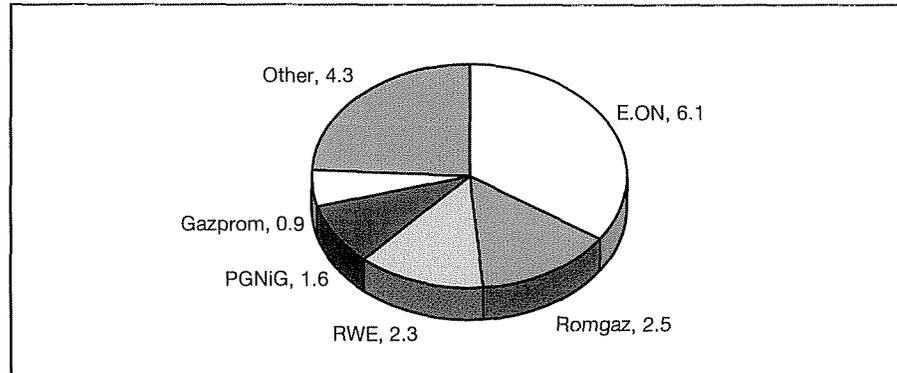
Source: E.ON, Cheuvreux

E.ON has a leading position in gas purchases (bcm)...



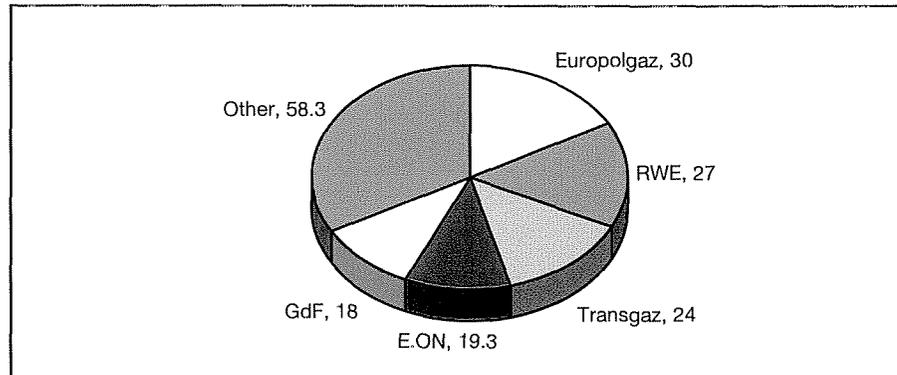
Source: E.ON, Cheuvreux

...the highest gas storage capacity in CEE (bcm)...



Source: E.ON, Cheuvreux

...and is a major player in gas transit (bcm)



Source: E.ON, Cheuvreux estimates

The areas that E.ON now targets for expansion and where the company wants to profit from further privatizations are:

- Romanian distribution companies
- Privatizations in Poland
- Privatizations in the Adriatic and Western Balkan region

Build up generation capacity to hedge distribution

Management's key focus is to build up significant generation capacity to hedge its own distribution. Currently, E.ON has an installed capacity of 350 MW, but in order to meet customers' demand, a capacity of some 8,100 MW would be necessary. The company's long-term goal is to cover approximately 50% of own demand with in-house generation, which would equate to around 4,000 MW. Its mid-term goal (2010) is to have in-house capacity of 1,800 MW.

Dedicated capex of EUR6.3bn

Management also sees growth opportunities in the build-up of gas infrastructure, i.e. storage as well as LNG (liquefied natural gas) and to a lesser extent in power and gas downstream. Therefore, management has dedicated EUR6.3bn of capex for the years 2007-10. The following two tables recapitulate E.ON's investment plan as announced on 31 May 2007 and show how much is earmarked for CEE.

E.ON group capex plan 2007-10

Business	Total capex (EURbn)	Envisaged (EURbn)	Pct.	Comment
Endesa assets	10.0	0.0	0%	Closing expected H1-08
Generation ex renew.	12.0	1.5	13%	4 plants under construction
Renewables	3.0	1.3	43%	Energi E2 Renovables Ibéricas
Gas upstream, storage, networks	10.0	3.7	37%	Skarv-Idun area, gas storage/networks
Neighboring markets	6.0	4.1	68%	Envisaged 70% in OGK-4
Maintenance	18.0	2.2	12%	3 plants under construction
Other	1.0	0.0	0%	N/A
Total	60.0	12.8	21%	Investments 2007-10

Source: E.ON, Cheuvreux

CEE capex plan 2007-10

Business	Total group capex (EURbn)	o/w CEE	Comment
Endesa assets	10.0	0.0	N/A
Generation ex renew.	12.0	3.8	N/A
Renewables	3.0	0.0	N/A
Gas upstream, storage, networks	10.0	0.3	Gas storage, networks & LNG
Neighboring markets	6.0	1.2	Privatisations and buy-outs
Maintenance	18.0	1.0	Power and gas downstream
Other	1.0	0.0	N/A
Total	60.0	6.3	Investments 2007-10

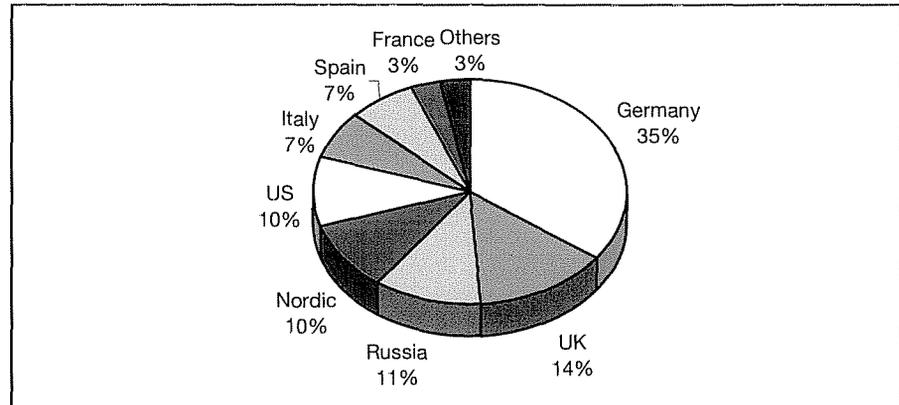
Source: E.ON, Cheuvreux

In sum, we applaud the company's attempts to expand early in this region. Given the high demand growth in both power and gas, we think the EUR6.3bn of capex earmarked for the CEE region, representing 11% of the total capex plan, will be money well and profitably spent, and will improve the geographical diversification of E.ON's business portfolio.

High level of geographic diversification

The company's high degree of diversification is also a major reason why we rate the stock a 2/Outperform. Although Germany still accounts for the largest share of its generation capacity, it only represents some 35% of the total of 76 GW including Russian OGK-4 and the Endesa assets.

Geographically diversified generation portfolio

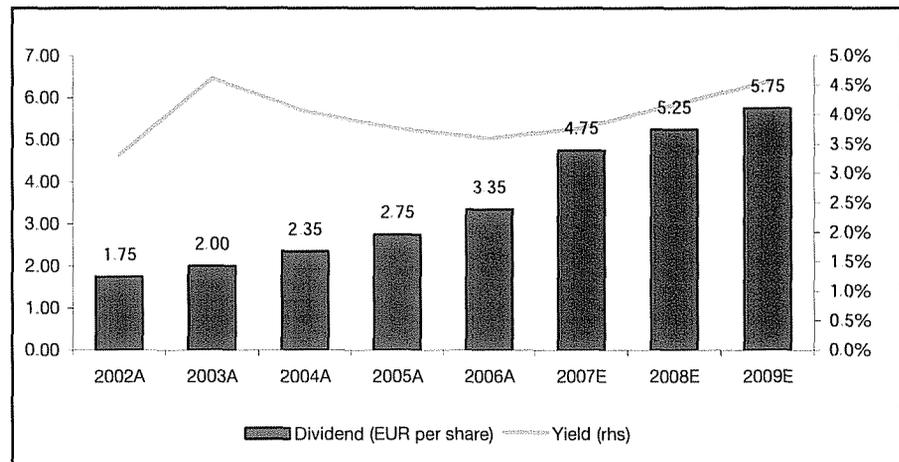


Source: E.ON, Cheuvreux

The company has effectively diversified away some of its vulnerability to the decisions of German and to a lesser extent European politicians. Given the latest proposals of the EU Commission regarding the break-up of utilities and comments from German politicians and the Federal Antitrust Office regarding the inclusion of CO₂ certificates, such diversification is certainly a plus.

Additionally, we believe the downside for the stock should be quite limited by its high dividend yield. Assuming a payout ratio of around 58%, i.e. at the upper end of the guided range of 50-60%, E.ON provides a 2008E dividend yield of 4.1%, which should serve to support the share to a significant degree in the event of a general equity market downturn.

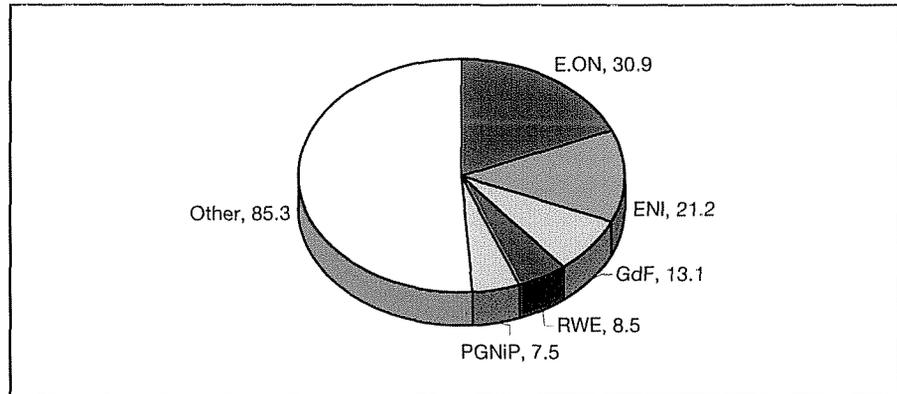
High dividend should support the share price



Source: E.ON, Cheuvreux estimates

The only risks we currently see are (a) regulatory risk (potential unfavourable regulatory decisions) and (b) the risk represented by its strong dependence on gas supplied by Gazprom. In particular in CEE, market participants are confronted with the leading supply position of Gazprom. In the Baltic region and in Slovakia, for instance, Gazprom has a market share of close to 100%. In Hungary and Romania, Gazprom's market share is still 66% and 35%, respectively. At E.ON, Gazprom represents 25% of the company's gas supply, slightly less than Norway (27%).

Number one importer of Russian gas, bcm per year



Source: E.ON, Cheuvreux

As a consequence, E.ON is the utility with the highest exposure to Gazprom across Europe, which exposes it to risk arising from supply shortages. This dependency can cut both ways, however, as it also increases the company's negotiation leverage, leading to slightly lower prices and more favourable supply conditions.

CHEUVREUX GERMANY

E.ON

FY to 31/12 (Euro m)	2002	2003	2004	2005	2006	2007E	2008E	2009E
Profit & Loss Account								
Sales	35,691.0	42,541.0	46,742.0	56,414.0	67,759.0	67,755.4	77,780.0	79,523.0
% Change		19.2%	9.9%	20.7%	20.1%	0.0%	14.8%	2.2%
Staff costs	(6,465.0)	(4,906.0)	(4,192.0)	(4,232.0)	(4,573.0)	(4,700.5)	(4,832.3)	(4,968.6)
Other costs	(21,668.0)	(28,177.0)	(32,809.0)	(41,988.0)	(51,833.0)	(51,227.2)	(58,824.6)	(59,534.5)
EBITDA	7,558.0	9,458.0	9,741.0	10,194.0	11,353.0	11,827.7	14,123.1	15,019.9
% Change		25.1%	3.0%	4.7%	11.4%	4.2%	19.4%	6.3%
Depreciation	(2,909.0)	(3,230.0)	(2,954.0)	(2,901.0)	(3,203.0)	(3,017.9)	(3,417.4)	(3,520.0)
EBITA	4,649.0	6,228.0	6,787.0	7,293.0	8,150.0	8,809.8	10,705.7	11,499.9
% Change		34.0%	9.0%	7.5%	11.8%	8.1%	21.5%	7.4%
Goodwill amortisation before OP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4,649.0	6,228.0	6,787.0	7,293.0	8,150.0	8,809.8	10,705.7	11,499.9
Net financial items	(372.0)	(1,107.0)	(1,031.0)	(1,027.0)	(1,081.0)	(1,128.3)	(1,963.2)	(2,230.1)
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	(638.0)	366.0	159.0	3,302.0	(2,863.0)	(368.1)	(1,311.2)	(1,394.4)
Tax	662.0	(1,124.0)	(1,850.0)	(2,261.0)	323.0	(2,167.4)	(2,404.2)	(2,549.2)
Associates [contribution]	(901.0)	748.0	752.0	636.0	1,054.0	1,098.1	1,311.2	1,394.4
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	3,400.0	5,111.0	4,817.0	7,943.0	5,583.0	6,244.1	6,338.3	6,720.6
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(623.0)	(464.0)	(478.0)	(536.0)	(526.0)	(548.0)	(788.7)	(839.9)
Net attributable profit [loss]	2,777.0	4,647.0	4,339.0	7,407.0	5,057.0	5,696.1	5,549.6	5,880.7
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net attrib. profit [loss], restated	2,777.0	4,647.0	4,339.0	7,407.0	5,057.0	5,696.1	5,549.6	5,880.7
% Change		67.3%	-6.6%	70.7%	-31.7%	12.6%	-2.6%	6.0%
Cash Flow Statement								
Cash flow	0.0	6,326.0	6,294.0	10,776.0	9,495.0	9,260.9	12,774.8	10,765.5
% Change			-0.5%	71.2%	-11.9%	-2.5%	37.9%	-15.7%
Change in WCR	0.0	3,797.0	142.0	(9,465.0)	(1,412.0)	0.5	(1,287.0)	(223.8)
Capex	0.0	(2,481.0)	(3,750.0)	(1,864.0)	(3,704.0)	(7,453.1)	(19,333.6)	(11,133.2)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	(8,691.3)	(9,934.3)	(5,720.6)
Net cash flow	0.0	7,642.0	2,686.0	(553.0)	4,379.0	1,808.3	(7,845.8)	(591.5)
Financial investments	0.0	(1,120.0)	303.0	(13,906.0)	1,034.0	(880.8)	(1,011.1)	(1,033.8)
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	0.0	(1,141.0)	(1,304.0)	(1,549.0)	(4,614.1)	(2,209.7)	(2,994.5)	(3,168.4)
Capital increase	0.0	(10.0)	(18.6)	0.0	(1.2)	(3,500.0)	(3,500.0)	0.0
Other cash flow	0.0	(2,961.0)	(445.4)	13,889.0	(4,507.8)	4,314.7	14,060.0	4,366.4
Dec. [inc.] in net debt	0.0	2,410.0	1,221.0	(2,119.0)	(3,710.1)	(467.5)	(1,291.4)	(427.3)
Balance Sheet								
Shareholders' equity [group share]	25,653.0	29,774.0	33,560.0	44,484.0	47,845.0	48,320.6	48,172.7	51,382.2
Minority interests	6,511.0	4,625.0	4,144.0	4,734.0	4,917.0	4,975.9	4,967.6	5,310.3
Pension provisions	9,163.0	7,442.0	8,589.0	8,720.0	3,885.0	3,993.3	4,105.3	4,221.0
Other provisions	25,584.0	26,886.0	25,660.0	33,569.0	36,147.0	36,119.1	41,463.9	42,392.0
Net debt [cash]	13,288.0	7,867.0	4,944.0	4,465.0	7,212.0	11,886.7	24,801.3	29,075.0
Gearing [%]	41.3	22.9	13.1	9.1	13.7	22.3	46.7	51.3
Capital invested	80,199.0	76,594.0	76,897.0	95,972.0	100,006.0	105,295.6	123,510.8	132,380.5
Goodwill	14,512.0	13,955.0	14,454.0	15,363.0	15,124.0	15,407.0	15,407.0	15,407.0
Intangible assets	4,528.0	4,153.0	3,788.0	4,125.0	3,749.0	3,783.0	4,161.3	4,525.7
Tangible assets	42,427.0	42,797.0	43,563.0	41,323.0	42,712.0	46,830.2	62,368.0	69,616.9
Financial assets	2,518.0	1,775.0	5,318.0	15,387.0	19,389.0	19,964.1	20,624.3	21,299.3
Associates	14,453.0	15,950.0	11,945.0	12,480.0	10,307.0	10,612.7	10,963.7	11,322.5
Working capital requirement	1,761.0	(2,036.0)	(2,171.0)	7,294.0	8,725.0	8,698.5	9,986.5	10,209.3
WCR as a % of sales	4.9	(4.8)	(4.6)	12.9	12.9	12.8	12.8	12.8
Capital employed	80,199.0	76,594.0	76,897.0	95,972.0	100,006.0	105,295.6	123,510.8	132,380.7

CHEUVREUX GERMANY

E.ON

FY to 31/12 (Euro)	2002	2003	2004	2005	2006	2007E	2008E	2009E
Per Share Data (at 20/9/2007)								
EPS before goodwill	4.26	7.11	6.61	11.24	7.67	8.73	8.99	9.74
% Change		66.8%	-7.0%	70.0%	-31.8%	13.9%	3.0%	8.3%
EPS, reported	4.05	6.76	6.61	11.24	7.67	8.73	8.99	9.74
% Change		66.8%	-2.3%	70.0%	-31.8%	13.9%	3.0%	8.3%
Goodwill per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share	1.75	2.00	2.35	7.00	3.35	4.75	5.25	5.75
Cash flow per share	0.00	9.67	9.59	16.35	14.40	14.20	20.71	17.84
% Change			-0.9%	70.5%	-11.9%	-1.4%	45.8%	-13.8%
Book value per share	35.7	41.2	48.6	60.5	69.2	71.9	74.6	79.4
No. of shares, adjusted	685.000	689.000	659.200	659.200	659.600	630.400	603.500	603.500
Av. number of shares, adjusted	685.000	687.000	656.500	659.200	659.600	652.300	617.000	603.500
Treasury stock, adjusted	33.000	33.000	0.000	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]								
Latest price	38.45	51.74	67.06	87.39	102.83	126.70	126.70	126.70
High	60.25	52.27	67.33	89.33	104.50	127.45	-	-
Low	38.02	34.11	48.70	63.90	81.05	94.50	-	-
Average price	52.85	43.31	57.96	73.14	93.20	111.69	-	-
Market capitalisation	26,607.4	35,804.1	46,405.5	60,473.5	71,158.4	79,871.7	76,463.5	76,463.5
Enterprise value	54,905.9	52,504.3	72,694.0	74,199.4	82,786.8	96,505.6	110,296.8	114,790.2
Valuation								
P/E	9.0	7.3	10.1	7.8	13.4	14.5	14.1	13.0
P/E before goodwill	9.0	7.3	10.1	7.8	13.4	14.5	14.1	13.0
P/CF	NS	5.3	7.0	5.3	7.1	8.9	6.1	7.1
Attrib. FCF yield [%]	NS	19.2	5.2	NS	5.5	2.0	NS	NS
P/BV	1.1	1.3	1.4	1.4	1.5	1.8	1.7	1.6
Enterprise value / Op CE	0.9	0.9	1.2	1.1	1.2	1.2	1.2	1.2
Yield [%]	4.6	3.9	3.5	8.0	3.3	3.7	4.1	4.5
EV/EBITDA, restated	7.3	5.6	7.5	7.3	7.3	8.2	7.8	7.6
EV/EBITA, restated	11.8	8.4	10.7	10.2	10.2	11.0	10.3	10.0
EV/Sales	1.54	1.23	1.56	1.32	1.2	1.4	1.4	1.4
EV/Debt-adjusted cash flow	NS	6.7	9.5	6.0	7.0	8.7	6.9	8.2
Financial Ratios								
Interest cover	NS	8.5	9.4	9.9	10.5	10.5	7.2	6.7
Net debt/Cash flow	NS	1.2	0.8	0.4	0.8	1.3	1.9	2.7
EBITDA margin [%]	21.2	22.2	20.8	18.1	16.8	17.5	18.2	18.9
EBITA margin [%]	13.0	14.6	14.5	12.9	12.0	13.0	13.8	14.5
Net margin [%]	9.5	12.0	10.3	14.1	8.2	9.2	8.1	8.5
Capital turn [Sales/ Op. CE]	0.6	0.7	0.8	0.8	1.0	0.9	0.8	0.8
Gearing [%]	41.3	22.9	13.1	9.1	13.7	22.3	46.7	51.3
Payout ratio [%]	43.2	29.6	35.6	62.3	43.7	54.4	58.4	59.0
Return [%]								
Pre-tax RoCE	7.4	10.6	11.4	10.7	11.6	11.8	11.6	11.5
RoCE after tax	9.1	8.7	8.2	8.3	12.3	8.7	8.4	8.4
ROE [%]	11.4	16.9	13.8	18.2	11.2	12.5	12.2	12.1
Return on equity, restated	11.4	16.9	13.8	18.2	11.2	12.5	12.2	12.1

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Europe Germany
Utilities Electricity

15 October 2007

E.ON

Reuters: EONG.DE Bloomberg: EOA GY Exchange: GER Ticker: EONG

Ready for more integration in Europe

Lars Slomka, DVFA

Research Analyst
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After updating our forecasts, we raise our TP to Euro 145.

With this note we update our forecasts and raise our target price to Euro 145, driven by higher expected power prices, fast execution of E.ON's growth capex program and active balance sheet management. In 2010, we expect E.ON to be well positioned for an integrated European power/gas market due to its further securing gas supply, diversifying geographically, continuing with profitable growth in generation capacity (+50% until 2010) and focusing more on Renewables.

We expect E.ON to show 11% EBIT CAGR until 2010

E.ON has successfully gained momentum after the Endesa deal ended. We expect E.ON to buy around Euro 10bn worth of assets. After its strategic update with a Euro 60bn Capex program, we expect E.ON to show an 11% EBIT CAGR until 2010, with optimized financing structures due to a Euro 7bn share buyback showing an estimated 14.7% DPS CAGR until 2010.

E.ON delivers on its business plan; looks well positioned in Europe in 2010

E.ON continues to deliver on its business plan with the recent acquisitions in Scandinavia (Gas in Skarv Idun), Iberia and US (Wind E2 in Spain and Airtricity in US), and Russia (OGK-4). Together with the Endesa assets, this should allow E.ON to increase its EBIT from Euro 8.4bn in 2006 to Euro 12.7bn in 2010. Given its strategic positioning and recent acquisitions, we believe E.ON is a strong value play in the current market situation. We forecast 9% EBITDA CAGR growth until 2010 with a 2008 dividend yield of 3.6%.

Our SotP-derived TP is Euro 145

E.ON trades at 7.8x 08E EV/EBITDA, an 11% discount to the sector. We continue to assume a lifetime extension for nuclear power (Euro 9 per share) with \$60/bbl oil and E25 carbon. The main risks to our valuation are lower carbon, oil or gas prices. (Please see pages 27 and 31 for further discussion of valuation and risks.)

Forecasts and ratios

Year End Dec 31	2005A	2006A	2007E	2008E	2009E
Revenue (EURm)	51,854	64,197	65,445	74,160	76,395
EBITDA (EURm)	10,272	11,353	12,289	14,357	15,576
EBITA (EURm)	7,415	8,423	9,028	10,653	11,719
DB EPS (EUR)	5.28	6.46	7.66	9.02	9.73
OLD DB EPS (EUR)	5.28	6.46	7.67	8.58	-1.17
P/E (DB EPS) (x)	13.9	14.4	16.7	14.2	13.1
EV/EBITDA (x)	6.3	7.0	7.5	7.8	7.4
DPS (EUR)	7.00	3.35	3.98	4.60	5.06
Yield (%)	9.6	3.6	3.1	3.6	4.0

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

Deutsche Bank



Company Review

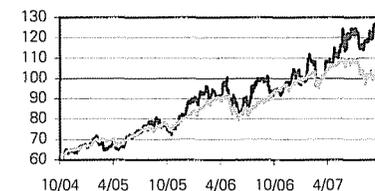
Buy

Price at 11 Oct 2007 (EUR)	127.70
Price Target (EUR)	145.00
52-week range (EUR)	129.76 - 91.73

Key changes

Target Price	118.00 to 145.00	↑	22.9%
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Price/price relative

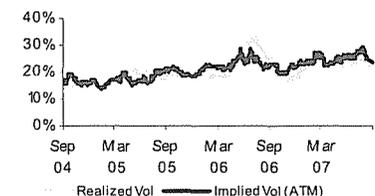


Performance (%)	1m	3m	12m
Absolute	5.4	5.6	37.6
Dow Jones EURO STOXX Price	7.0	0.0	15.4

Stock & option liquidity data

Market cap (EUR)(m)	82,292.1
Shares outstanding (m)	644
Free float (%)	100
Option volume (und. shrs., 1M avg.)	2,659,379

Implied & Realized Volatility (3M)



Implied Volatility (3M, ATM) vs. Peers

IBEM C	28.3%
LYOE PA	24.2%
EDF PA	28.0%
EONG DE	23.3%
RWEG DE	22.9%

*Weighted-avg. of index components
Data as of 21-Sep-07

Model updated: 10 October 2007

Running the Numbers

Europe

Germany

Electric Utilities

E.ON

Reuters: EONG.DE

Bloomberg: EOA GY

Buy

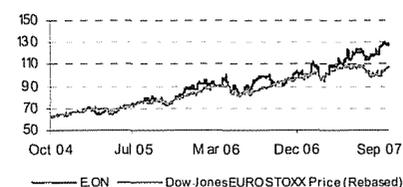
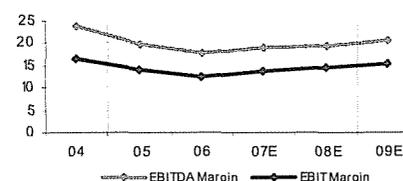
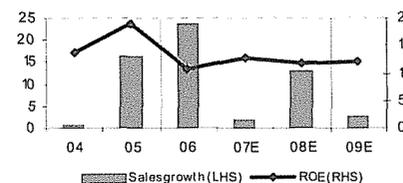
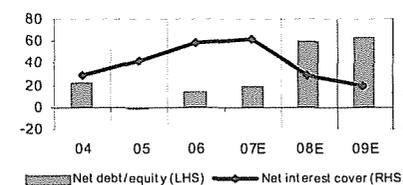
Price (11 Oct 07) EUR 127.70

Target price EUR 145.00

52-week Range EUR 91.73 - 129.76

Market Cap (m) EUR 82,292
USD 117,164**Company Profile**

E.ON AG generates and distributes electricity and distributes gas and district heating to industrial, commercial and residential customers. The company stores and distributes gas and develops real estate. E.ON operates in Europe and North America.

Price Performance**Margin Trends****Growth & Profitability****Solvency**

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Fiscal year end 31-Dec	2004	2005	2006	2007E	2008E	2009E
Financial Summary						
DB EPS (EUR)	5.30	5.28	6.46	7.66	9.02	9.73
Reported EPS (EUR)	6.61	11.24	7.67	9.51	9.02	9.73
DPS (EUR)	2.35	7.00	3.35	3.98	4.60	5.06
BVPS (EUR)	51.1	67.5	72.6	74.3	76.4	82.6
Weighted average shares (m)	657	659	659	644	616	604
Average market cap (EURm)	38,069	48,199	61,415	82,292	78,695	77,088
Enterprise value (EURm)	66,694	64,447	79,859	92,685	112,135	115,058
Valuation Metrics						
P/E (DB) (x)	10.9	13.9	14.4	16.7	14.2	13.1
P/E (Reported) (x)	8.8	6.5	12.1	13.4	14.2	13.1
P/BV (x)	1.31	1.29	1.42	1.72	1.67	1.55
FCF Yield (%)	8.4	5.8	5.0	9.7	nm	2.0
Dividend Yield (%)	4.1	9.6	3.6	3.1	3.6	4.0
EV/Sales (x)	1.5	1.2	1.2	1.4	1.5	1.5
EV/EBITDA (x)	6.3	6.3	7.0	7.5	7.8	7.4
EV/EBIT (x)	9.1	8.8	9.8	10.3	10.5	9.8

Income Statement (EURm)

	2004	2005	2006	2007E	2008E	2009E
Sales revenue	44,539	51,854	64,197	65,445	74,160	76,395
Gross profit	14,253	17,865	27,290	28,561	36,328	37,586
EBITDA	10,515	10,272	11,353	12,289	14,357	15,576
Depreciation	2,851	2,857	2,930	3,261	3,704	3,856
Amortisation	308	82	273	0	0	0
EBIT	7,356	7,333	8,150	9,028	10,653	11,719
Net interest income(expense)	-1,003	-775	-692	-731	-1,428	-2,019
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	578	3,930	-1,809	1,000	0	0
Other pre-tax income/(expense)	-137	-252	-389	-292	-297	-301
Profit before tax	6,794	7,208	5,133	9,005	8,928	9,399
Income tax expense	1,947	2,276	-323	2,206	2,678	2,820
Minorities	504	553	526	672	694	705
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,343	7,407	5,057	6,127	5,556	5,875
DB adjustments (including dilution)	-863	-3,930	-798	-1,192	0	0
DB Net profit	3,480	3,477	4,259	4,935	5,556	5,875

Cash Flow (EURm)

	2004	2005	2006	2007E	2008E	2009E
Cash flow from operations	5,967	6,601	7,194	9,956	9,228	10,522
Net Capex	-2,770	-3,800	-4,100	-2,000	-14,000	-9,000
Free cash flow	3,197	2,801	3,094	7,956	-4,772	1,522
Equity raised/(bought back)	0	0	0	-3,500	-3,500	0
Dividends paid	-1,616	-1,794	-4,856	-2,573	-2,861	-3,124
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	874	8,752	2,893	-4,850	-11,000	-2,000
Net cash flow	2,455	9,759	1,131	-2,967	-22,134	-3,602
Change in working capital	-767	-1,027	-1,291	-160	-1,090	-283

Balance Sheet (EURm)

	2004	2005	2006	2007E	2008E	2009E
Cash and other liquid assets	12,016	15,119	6,187	3,220	1,086	2,484
Tangible fixed assets	43,563	41,323	42,712	46,301	67,597	74,741
Goodwill/intangible assets	18,242	19,488	18,873	18,873	18,873	18,873
Associates/investments	17,263	21,686	28,302	28,302	28,302	28,302
Other assets	22,978	28,946	31,158	31,418	33,193	33,654
Total assets	114,062	126,562	127,232	128,114	149,051	158,054
Interest bearing debt	20,301	14,362	13,399	13,399	33,399	38,399
Other liabilities	56,057	62,982	61,071	61,228	62,276	62,823
Total liabilities	76,358	77,344	74,470	74,627	95,675	101,222
Shareholders' equity	33,560	44,484	47,845	47,899	47,093	49,844
Minorities	4,144	4,734	4,917	5,589	6,283	6,988
Total shareholders' equity	37,704	49,218	52,762	53,488	53,376	56,831
Net debt	8,285	-757	7,212	10,179	32,313	35,915

Key Company Metrics

	2004	2005	2006	2007E	2008E	2009E
Sales growth (%)	0.8	16.4	23.8	1.9	13.3	3.0
DB EPS growth (%)	6.0	-0.4	22.5	18.5	17.7	7.9
EBITDA Margin (%)	23.6	19.8	17.7	18.8	19.4	20.4
EBIT Margin (%)	16.5	14.1	12.7	13.8	14.4	15.3
Payout ratio (%)	35.6	62.3	43.7	41.9	51.0	52.0
ROE (%)	13.7	19.0	11.0	12.8	11.7	12.1
Capex/sales (%)	6.2	7.3	6.4	3.1	18.9	11.8
Capex/depreciation (x)	1.0	1.3	1.4	0.6	3.8	2.3
Net debt/equity (%)	22.0	-1.5	13.7	19.0	60.5	63.2
Net interest cover (x)	7.3	9.5	11.8	12.3	7.5	5.8

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

Significant increases in German forward electricity prices (currently close to record highs of Euro 57/MWh) should boost profits at E.ON's German nuclear and coal fleet, although, due to the lag between higher wholesale prices and higher retail prices, the full benefit of higher prices will take until 2008/09 to feed through into numbers. E.ON quickly delivered on its Euro 60bn Capex program (planned for up to 2010) with deals in all business areas. Recent acquisitions include Scandinavia (Gas in Skarv Idun), Iberia and the US (Wind), and Russia (OGK-4). We expect E.ON to increase its EBIT from Euro 8.4bn in 2006 to Euro 12.7bn in 2010. E.ON should see its generation business grow by 50% until 2010 with returns at least 1% above WACC. At the same time, the company's strong financial discipline was evidenced by its clear financial targets allowing for a single A rating. E.ON is actively moving towards a healthy leverage (3x Net debt/EBITDA) which currently includes a Euro 7bn share buyback until H1 08. E.ON plans to revisit its whole portfolio, and given its stronger-than-anticipated Capex in Renewables, we would expect disposals of value-eroding market units in case there is another big acquisition.

Stable cash-flows, healthy leveraging to keep CoC low, share buyback, growth Capex, rising power prices and a sector valuation discount should further drive E.ON's share price over the next 12 months.

We believe that Germany is likely to see further rising power prices (higher coal & oil prices, CO₂ costs, and generation shortage), and during the next Federal elections in 2009 we expect that one of the differentiators for the political parties will be their stance on the energy policy. Any external event (e.g. shortage in gas supply) with strong power price increases will increase the likelihood of nuclear lifetime extension, in our view.

Valuation

We value E.ON using a sum-of-the-parts (SotP) method, with the bulk of the value coming from E.ON Energie (especially the German generation assets) and the Ruhrgas business. We have valued the German and European generation plants using a DCF method assuming a long-term power price of Euro 60/MWh, with gas as the new-entrant fuel of choice. This is based on a mid-cycle oil price forecast of \$60/boe, and a long-term carbon price of Euro 25/tonne. We also assume an extension of Germany's nuclear power plants to 60 years, and a 50% tax rate for all nuclear output going forward. We also use a DCF method to value the UK power-generation plants, but use a higher long-term power price of £42/MWh for the UK and Euro 43/MWh for the Nordic region, again reflecting the thermal equivalence with oil. We value the German network businesses (power and gas) on the basis of the assumed RAB values using European peer companies in the UK and continental Europe as cross references. On the basis of these assumptions, our TP for E.ON is Euro 145.

Risks

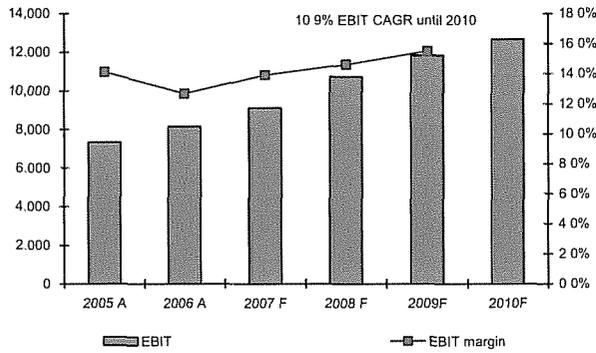
The main risks to our valuation: gas and carbon prices are lower in future than we are now assuming and/or the European carbon-trading scheme breaks down, thereby making conventional coal the new entrant of choice and therefore reducing our long-term power-price forecast. The other key downside risk to our valuation and earnings estimates is the future impact of utility regulation in Germany.

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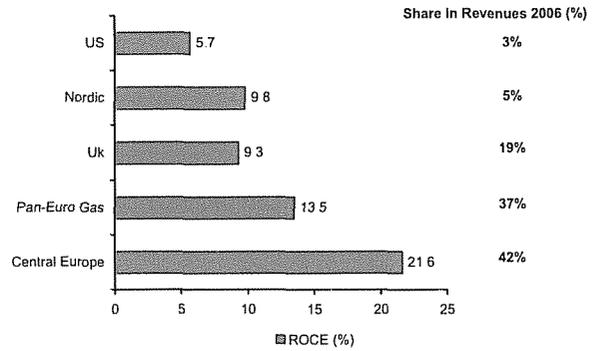
E.ON Financials at a glance

Figure 1: EBIT development 2005-2010F



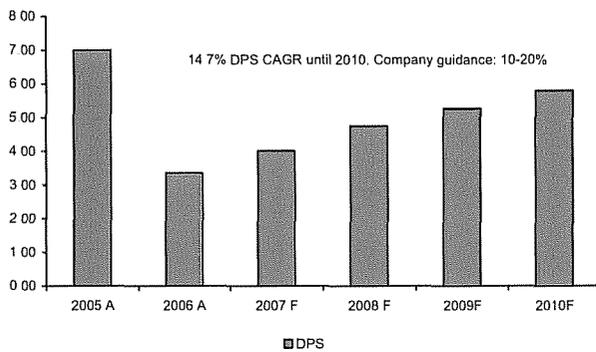
Source: Company data and Deutsche Bank estimates

Figure 2: ROCE and Revenue share (%)



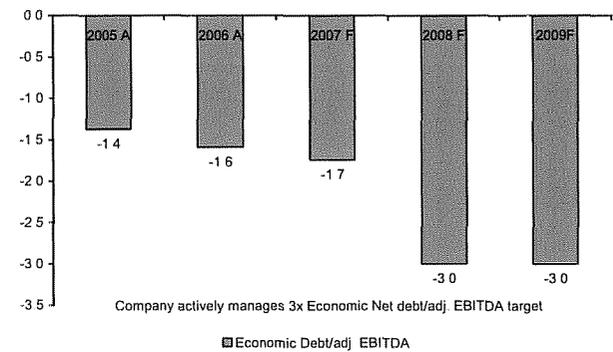
Source: Company data

Figure 3: DPS 2005-2010F



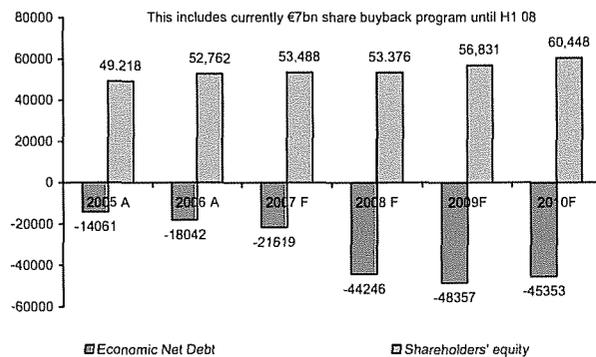
Source: Company data and Deutsche Bank estimates

Figure 4: Economic net debt/adj EBITDA



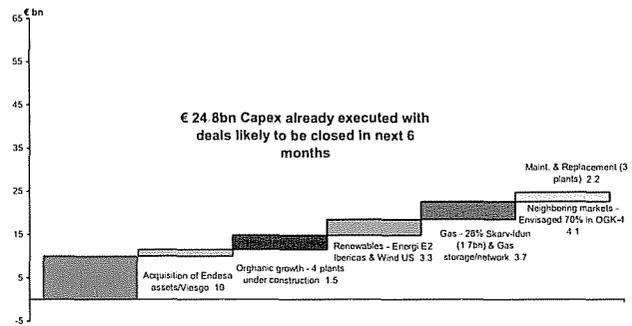
Source: Company data and Deutsche Bank estimates

Figure 5: Economic Net Debt and Equity



Source: Company data and Deutsche Bank estimates

Figure 6: Euro 60bn Capex program in execution



Source: Company data and Deutsche Bank estimates

Strategic review

E.ON secures leading position in Europe with Growth Capex program and Balance Sheet leveraging

E.ON 2010 – Growth Capex, Internationalization & Renewables

E.ON started to deliver on its strategic objectives by executing Euro 24.8bn of its Euro 60bn Capex program in the last 3 months, of which Euro 7.1bn was for acquisitions in Renewables, gas upstream and to enter the Russian market. Value-enhancing Capex in growth areas, healthy leveraging of the Balance Sheet with a share-buyback program, an expected dividend increase of 14.6% CAGR until 2010, as well as a favorable power price development should help boost E.ON's EBIT to Euro 12.7bn in 2010, according to our estimates (Euro 300m ahead of E.ON guidance of Euro 12.4bn).

E.ON announced new long-term targets which will, in our view, further strengthen E.ON's leading market position in the European Utilities sector. With around Euro 42bn growth investments (to deliver over Euro 4bn in additional EBIT; around Euro 3bn in 2010) and a healthy leveraging of the balance sheet, the company is likely to gain operating strength in Europe and keep financing costs relatively low.

Figure 7: E.ON 2010 Targets

10% EBIT growth until 2010 to Euro 12.4bn

EBIT improvements driven by Euro 2.3bn growth Capex, Euro 400m cost savings and operational improvements of Euro 1.3bn

Euro 60bn Capex of which Euro 42bn growth investments

Euro 7bn share buyback

Economic net debt/EBITDA of up to 3x adj EBITDA as cap

Dividend growth of 10-20% in 07-10 with 50-60% payout ratio

Source: Deutsche Bank

With this note we update our forecasts, driven by a) E.ON's current Capex program, b) the Endesa acquisition c) the most recent acquisitions announced in August and September (except OGK-4), d) our new longer-term oil and power price assumptions (Germany Euro 60/MWh up from Euro 50/MWh previously) and e) the share-buyback program.

Operating business – creating long-term strength

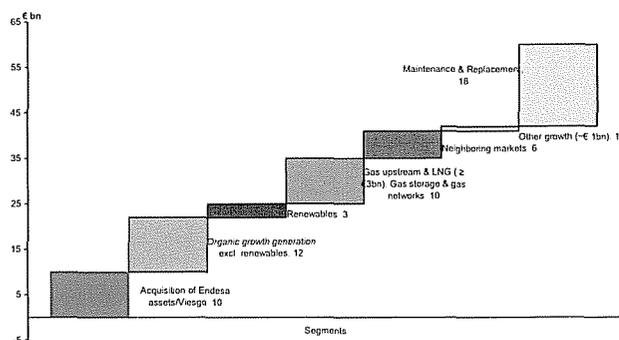
We believe that E.ON was right to accelerate its Capex plans in summer 2007, given a) the acquisitions of parts of rather than the total Endesa group, b) the increase in power prices, c) an expected shortage in European/German power generation, d) the difficult-to-predict energy policy in Germany, and e) the regulatory trend towards an integrated European power market, to be developed in the long term.

E.ON delivers on its Business plan: Renewable, new regions, capacity growth and share buyback

E.ON's Capex on its Euro 60bn program was Euro 25bn, with the Endesa assets, OGK-4 in Russia and 3.7bn Renewables as the major investments. The key effects of the Capex program on E.ON are:

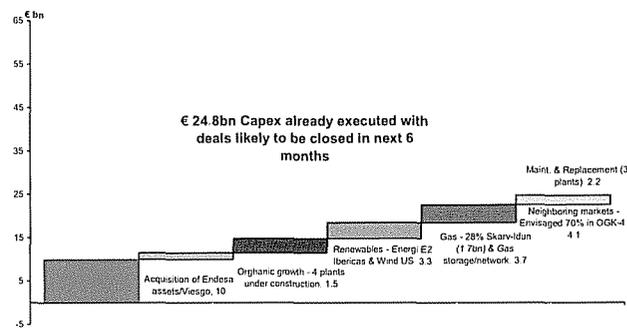
- 1) Substantial (50%) growth in generation
- 2) Internationalisation I with assets in Spain, France and Italy
- 3) Internationalisation II: Russia a possible new power market for E.ON
- 4) Renewables with wind capacity going from 420MW to 5,500MW

Figure 8: E.ON Full Euro 60bn Capex program 2007-10E



Source: Company data

Figure 9: E.ON Capex Execution October 2007



Source: Company data and Deutsche Bank estimates

1) Substantial growth in generation, diversification towards high-growth markets

E.ON plans to increase its generation capacity by over 50%, which should have the following effects on E.ON's generation capacity:

Figure 10: Changes in E.ON generation capacity until 2010E

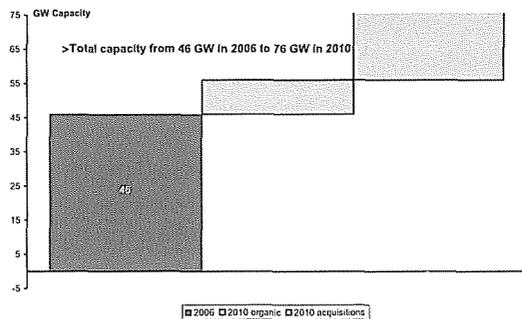
	Capacity 2006 (GW)	Capacity 2010E (GW)	Change (%)
UK	10.5	12.5	19.0%
Nordic	7.3	8.5	16.4%
Western Europe	27.9	32.6	16.8%
Eastern Europe	0.3	1.8	500.0%
Italy	0	7	nm
Spain	0	6.4	nm
Total Power Generation	46	68.8	49.6%
Russia OGK-4	0	8.6	nm
Gas (bcm)			
Production	0.5	10	1900.0%
Storage	5	10	100.0%

Source: Company data and Deutsche Bank estimates

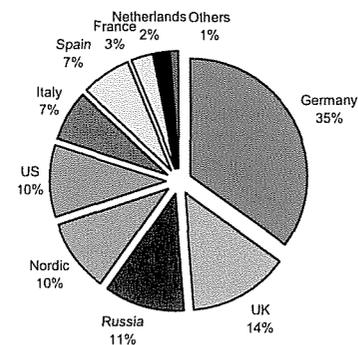
Thus, over the next 5 years we expect that E.ON will continue to:

1. Build a cleaner generation fleet with new, modern power plants and a total generation capacity of 68.8GW in 2010 from the current 46GW (or around 76GW with OGK-4). Therefore, German exposure in Generation, which used to be above 80% in 2003, should go below 35% in 2010 and reduce the dependency on the German market further.
2. Develop a wider presence in the European market with Russia (OGK-4, potentially Jusschno-Ruskoje), Spain, and Italy; most of these are markets that tend to show higher growth rates than Germany (0.5-1%).
3. Strengthen its market position in the UK and CE
4. Strengthen the gas business, which in our view becomes more important given the energy policy in Germany and in Europe.
5. Further diversify its gas supply, given the LNG terminals it is building in Germany (10bcm/pa) and France (9bcm/pa). Today, E.ON mainly sources gas from Norway and Russia (followed by Germany and the Netherlands) with Norway likely to become more

important given the recent Skarv Idun acquisition. The LNG Terminal in Wilhelmshaven is likely to increase the importance of gas supplies from the Middle East/North Africa. E.ON aims to secure 15-20% of its downstream gas needs from its own upstream capacities.

Figure 11: Built-up of Generation Capacity 2010E

Source: Company Data and Deutsche Bank estimates

Figure 12: 2010: Estimated split of Generation by Country

Source: Company data and Deutsche Bank estimates

2) Internationalisation I: Endesa ensures E.ON's strong position in Spain, Italy and France

With the acquisition of assets in Spain, Italy and France, E.ON has improved its European Generation position and we now include the following in our forecasts:

Spain: Viesgo – Enel's Spanish subsidiary – is currently the fifth-largest Utility in Spain with around 2.4GW capacity, comprising c70% thermal and 30% hydro. In the retail market, Viesgo is #4 and has around 0.65m customers. Additionally, it has 1,475MW Endesa assets plus a 10-year contract for 450MW nuclear capacity with an ongoing CCGT project with around 800MW capacity. Thus, a total of 4.3MW capacity is expected to reach 6.4MW total capacity in 2010, around 50% higher than it is today, making E.ON the #4 player in the Spanish market after Union Fenosa.

Italy: E.ON plans to take over at least 70% of the Endesa assets in Italy by gaining around 5000MW of generation capacity and becoming the fourth-largest generator in Italy. E.ON already has some presence in this country with Thüga Italia which has around 0.88m customers. E.ON is also expected to start a new CCGT by 2010 and is targeting a mid-term capacity of 6,200MW in 2010 in Italy.

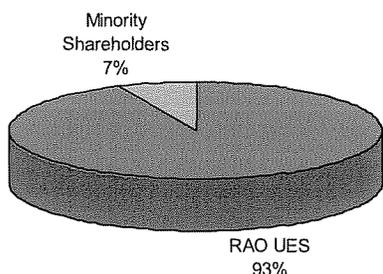
France: Endesa holds a 65% stake in French coal generator SNET, with EdF and Charbonnages de France holding the remaining stake, with a total capacity of 2.5GW.

E.ON's acquiring those assets for around Euro 10-11bn and a DB estimated Euro 1.4bn EBITDA contribution imply a multiple of around 6.9x-7.5x.

3) Internationalisation II: OGK-4 a possible new market for E.ON

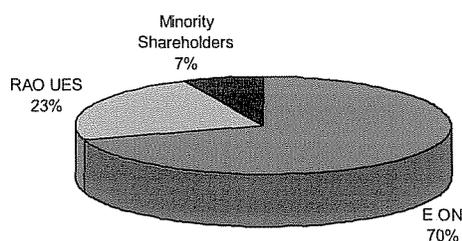
On September 17, it was announced that E.ON had won the bid to acquire roughly 29bn shares (or 47%) of OGK-4 (current price USD 0.13, Hold, TP USD 0.13) for an overall purchase price of USD 3.9bn. The Board of Directors also set the price for the 23% capital increase at the same level as E.ON's offer per share, which was mainly in line with our target price. E.ON intends to submit a binding offer for the acquisition of the issuing shares for roughly USD 1.8bn. If successful, E.ON will acquire up to 70% of the share capital of OGK-4 (Figure 13 & Figure 14). Estimates presented herein are based on our published OGK-4 forecasts.

Figure 13: OGK-4 pre transaction



Source: Company data

Figure 14: OGK-4 post transaction (pre minority bid)

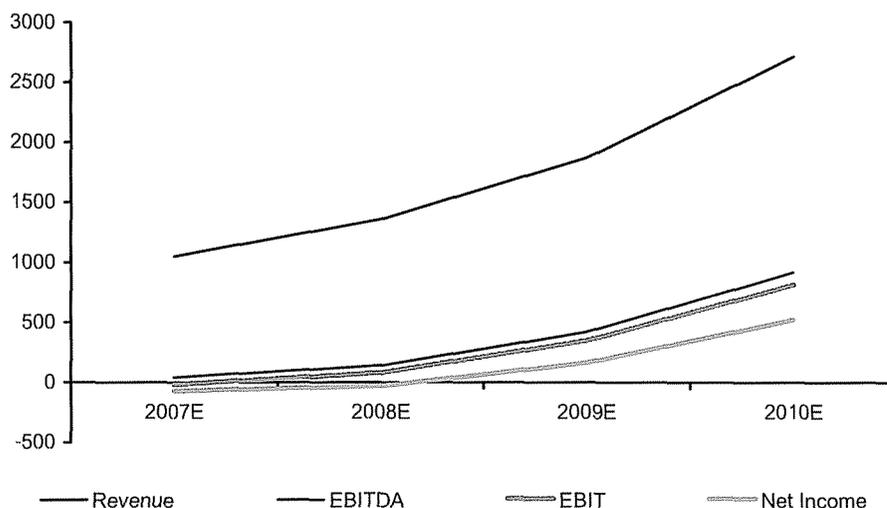


Source: Company data

Russian power and gas market are liberalising and show strong growth and accelerating demand for infrastructure investments

In our view, OGK-4 could be an excellent growth platform for E.ON in Russia despite the country risks involved with these investments. We believe that OGK-4 is unlikely to be earnings accretive before 2010 given that major revenue and earnings growth is expected for the same period, as can be seen in Figure 15.

Figure 15: OGK-4 revenue & earnings forecast in \$m



Source: Deutsche Bank estimates

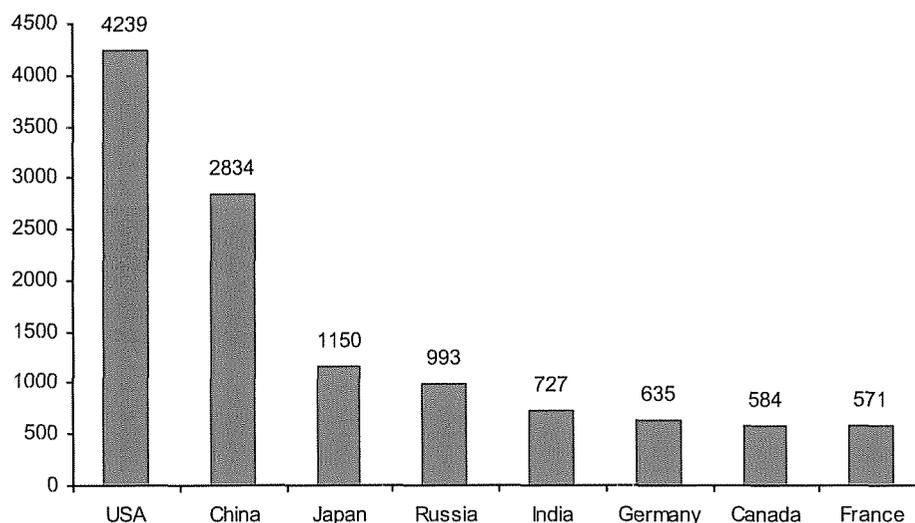
The Russian market seems attractive for E.ON given its characteristics:

- fourth-largest power market and world's largest heat market
- high demand growth, at least 5% CAGR until 2020
- demand for new capacities due to consumption growth and old generation capacity
- liberalization and privatization framework support investment into new capacities
- market qualifies for E.ON's integrated (power gas) business model

OGK-4 is one of the largest electricity companies in Russia with installed capacity of 8,630MW, electricity sales volume of 51GWh and revenues of USD 954m in FY06. It operates in 4 regional markets, has a 3.9% share of Russia's total installed generation capacity and 5.15% of Russia's total electricity output, employs around 5300 people, and is headquartered in Moscow. It operates five power generation plants throughout Russia – Surgutskaya GRES-2 (4,800MW, Surgut, Tyumen region), Berezovskaya GRES (1,500MW, Sharypovo, Krasnoyarsk territory), Shaturskaya GRES (1,100 MW, Shatura, Moscow region), Smolenskaya GRES (630MW, Ozerny, Smolensk region) and Yajvinskaya GRES (600MW, Yajva, Perm territory). OGK-4 plans to install additional capacities which amount to 2,400MW. We forecast OGK-4 to reach the greatest overall electricity production of 60,000mKWh and revenue potential of around USD 2.4bn in 2011.

OGK-4 power plants show strong operational performance with relatively high load factors (dominating Shaturskaya GRES, which accounts for 50% of the company's total production) with opportunities to switch between gas and coal in two plants as well as a comparatively young asset base and low fuel consumption rate versus other OGKs.

Figure 16: Total electricity Generation Russia, 2006 (TWh)

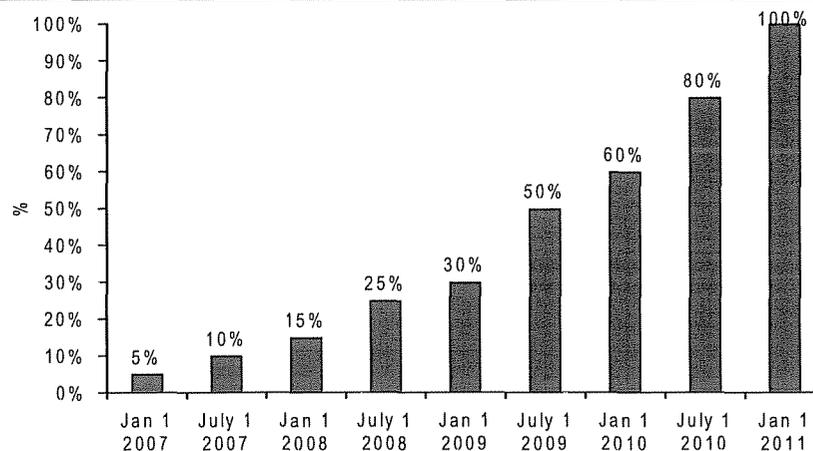


Source: Deutsche Bank estimates

Market to be liberalized over the coming years

Starting from FY07, the market is to be opened by between 5% and 15% per annum. By the end of 2007, the guaranteed market opening is to account for 10% of the total expected electricity production, growing to 25% by the end of 2008, 50% in 2009 and 80% in 2010. Two driving factors will influence the extent to which the market actually opens. The first is that any electricity consumption growth will be exposed to free pricing. The second is that new capacity entering the market will also be freed from the regulations. The regulated market is now constrained by the take-or-pay bilateral contracts.

Long-term bilateral contracts: One of the consequences of the regulated and unregulated electricity markets co-existing is the opportunity to buy cheap on the free market in off-peak hours and sell expensive at the tariff level through a bilateral contract.

Figure 17: Expected market liberalization in Russia

Source: Deutsche Bank

This means that generators can be both buyers and sellers of electricity at the same time. The government has also decided that as of 1 January 2007, the generators will switch to long-term electricity contracts of no less than three years. These long-term contracts will have special formulae for indexing the tariff, which will be linked to actual inflation and fuel prices.

**Finally, stronger focus on
Renewables in the future**

4) Renewables expansion from 420MW to 5500 MW until 2011

As discussed in a previous section, E.ON's growth plan includes stronger Capex for Renewables with strong focus on Wind power. In our view, other European Utilities have already entered the market more strongly than E.ON had, and the market remains attractive. Thus, we believe that E.ON's originally targeted Euro 3bn Capex until 2010 is low, and the company has already spent more with the recent acquisitions than budgeted.

Figure 18: World's leading wind farm owners

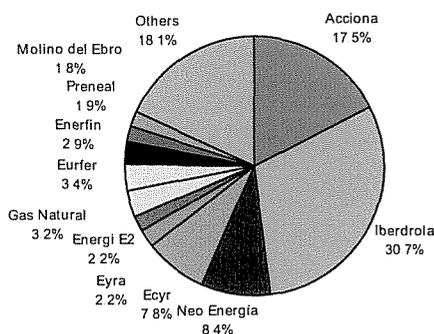
	Cumulative wind energy installed capacity (MW)			
	2003	2004	2005	2006
Iberdrola (Spain)	1,800	2,891	3,400	4,434
Florida Power & Light (USA)	2,500	2,400	3,500	4,300
Acciona (EHN) Spain	850	1,005	1,317	2,443
PPM Scottish Power (UK)	n a	1,200	750	1,593
Eurus (Japan)	500	1,140	750	1,324
Endesa (Spain)	600	1,123	800	1,500
Shell Renewables (UK)	250	740	740	849
NUON (Netherlands)	500	550	n a	840
Alliant Energy (USA)	490	490	n a	n a
ENEL Greenpower (Italy)	400	480	750	600
E.ON	n a	n a	n a	420
Energy E2 (Denmark)	n a	460	750	n a
Elsam (Denmark)	n a	420	n a	n a
Sif / EnXci (France)	250	370	700	n a
RWE (Germany)	n a	263	263	263
American Electric Power (USA)	350	360	n a	n a
Total	8,490	15,384	17,390	18,573

Source: BTM Consult; Iberdrola, Endesa, Acciona, E.ON, RWE

The global wind energy market has an estimated volume of Euro 18bn, and DB estimates around 22.2% CAGR in the next four years, driven by high oil and CO₂ prices, which negatively affect thermal power generation. DB expects further strong demand outpacing supply, which is defined by ongoing shortage of key components (gearboxes, bearings). The EU has set an overall target of obtaining 12% of gross energy consumption from renewable sources and 21% from electricity by 2010.

E.ON Wind capacities was 420MW end of last year with an around 2,000MW development portfolio (includes around 1,000MW wind project, London Array, 300MW Humber Gateway, and Alpha Ventus in Germany). In August and October, E.ON announced two new transactions to increase the share of its Renewables business. E.ON is acquiring Energi E2 in the second-largest wind market – Spain (\$722m including \$256m net debt) – with 260MW wind power in operation with another 560MW being planned by 2011. Spain currently has a total installed capacity of 11,614 MW. E2 had a market share of around 2.2% in Spain.

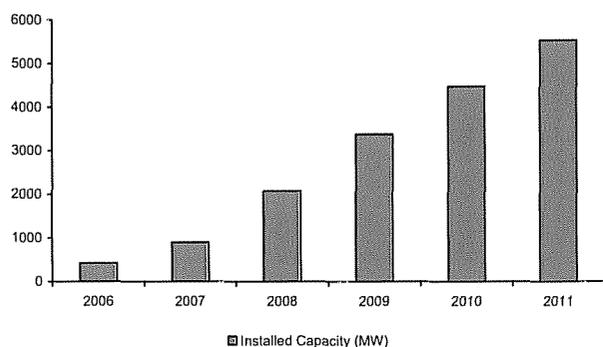
Figure 19: Market shares of cumulative wind energy capacity in Spain



Source: Asociación Empresarial Eólica

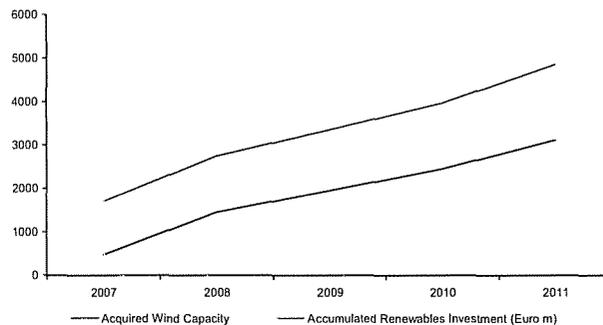
In October, E.ON acquired the US wind activities of Airtricity, in the second-largest wind power market, with around 214MW installed capacity (EV: \$1373m including \$553m net debt) and around 2,000MW being planned by 2011, with 877MW being installed by Q4 08. Total accumulated installed capacity in the US in 2006 was 11,635MW.

Figure 20: E.ON Wind Capacity (MW)



Source: Deutsche Bank estimates

Figure 21: E.ON Acquisitions 2007 & Capex Wind



Source: Deutsche Bank estimates

Figure 22: E.ON investments in Wind power

Wind	2006	2007E	2008E	2009E	2010E	2011E
E.ON		420	200	800	600	400
Installed Capacity		420	620	1420	2020	2420
Energi E2						
Installed Capacity (mainly wind, MW)		260	100	200	200	60
Costs (Euro m)		722	93	187	187	56
Airtricity US						
Installed Capacity (MW)		214	877	300	300	500
Costs (Euro m)		974	957	416	416	693
E.ON total						
Installed Capacity (MW)	420	894	1177	1300	1100	960
thereof acquired		474	977	500	500	560
Acquisition Costs (Euro m)		1696	1051	603	603	749
Accumulated acquired Renewables Investment (Euro m)						
		1696	2747	3349	3952	4701
Costs per MW		3.6	1.9	1.7	1.6	1.6

Source: Company data and Deutsche Bank estimates

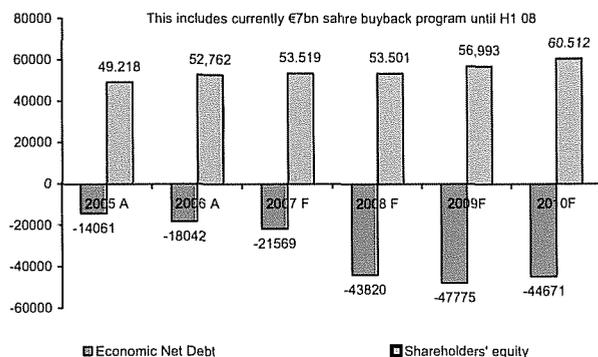
Financial strategy: Healthy leveraging actively managed

E.ON intends to actively manage its debt targets – this in our view includes share buybacks, higher dividends, acquisitions and disposals

As we see it, E.ON announced a healthy re-leveraging of its balance sheet by guiding for a target Economic net debt/EBITDA level of 3 to allow for sufficient financial stability, while still being able to maintain a single A/A2 rating. This should allow E.ON's cost of capital to be lower than in the past while at the same time maintaining stability in negative scenarios. Thus, despite its Euro 60bn Capex program, E.ON should be able to buy back shares worth Euro 7bn and remain in line with its Economic net debt/adj. EBITDA target factor of 3x until 2010, according to our estimates. (Economic net debt includes pension and nuclear provisions.)

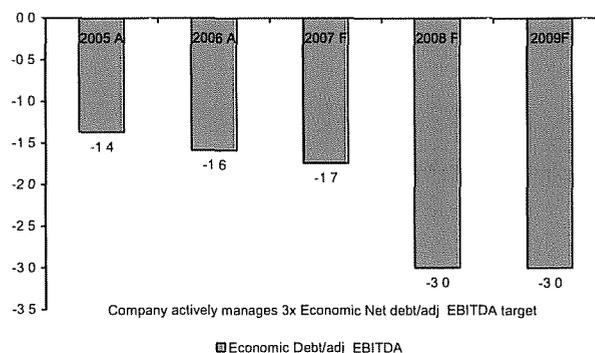
Thus, we expect the company to increase its dividend per share by around 14.7%pa until 2010, and with the current share buyback program, we forecast that economic net debt will rise to around 3x Economic net debt/EBITDA in 2008/2009 with a level of 2.8x in 2010.

Figure 23: Economic Net Debt and Equity 2006-2010E



Source: Deutsche Bank, company data

Figure 24: Economic net debt / adj. EBITDA



Source: Deutsche Bank, company data

Euro 7bn share buyback finalized end of H108

We expect the current share-buyback program to have a volume of around Euro 3.5bn until year-end and another Euro 3.5bn in H1 2008.

Figure 25: Share-buyback program and DPS growth

	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Net Income	4,647	4,334	7,407	5,057	6,127	5,556	5,875	6,229
Net Income (clean)	3,269	3,480	3,674	4,386	4,935	5,556	5,875	6,229
Number of shares (m)	654.0	657.0	659.0	659.0	644.4	616.3	603.7	605.7
Number of shares (m), YE	654.0	657.0	659.0	659.0	629.8	601.7	603.7	605.7
EPS (Recurring)	5.00	5.30	5.58	6.66	7.66	9.02	9.73	10.28
DPS	2.00	2.35	7.00	3.35	3.98	4.60	5.06	5.80
Reported CFPS	15.3	8.9	9.9	10.9	14.7	15.6	16.7	17.5

Source: Deutsche Bank, company data

10-20% targeted dividend growth until 2010 ranges from Euro 4.9 - Euro 6.95 with DBE 5.80 DPS in 2010

Increasing the ordinary dividend is another measure taken by E.ON to re-leverage its balance sheet. The company targets a c10-20% DPS CAGR until 2010, which yields a dividend range of Euro 4.90 to Euro 6.95 in 2010. We currently estimate a Euro 5.80 dividend per share in 2010. The Euro 7bn share buyback and the 10-20% dividend growth is backed by the company's strong operating cash-flow of an estimated Euro 9-11bn between 2007 and 2010 and allows E.ON to increase its leverage with lower cost of capital. While E.ON expects slightly higher costs of capital due to different assumptions (E.ON compared target ratios rather than reported), we believe that its structure will allow for lower CoC in the future.

Figure 26: WACC development

DB estimates	2005 A	2006 A	2007 F	2008 F	2009F	2010F
risk free rate	4.5	4.5	4.5	4.5	4.5	4.5
Equity premium	4.5	4.5	4.5	4.5	4.5	4.5
Beta	0.9	0.9	0.9	0.9	0.9	0.9
Cost of Equity	8.55	8.55	8.55	8.55	8.55	8.55
Cost of Debt - pre-tax	5.5	5.5	5.6	5.7	5.7	5.7
Tax rate	35	35	33	30	30	30
Cost of Debt after tax	3.6	3.6	3.8	4.0	4.0	4.0
Equity	0.82	0.79	0.79	0.65	0.63	0.65
Debt	0.18	0.21	0.21	0.35	0.37	0.35
WACC after tax	7.63	7.52	7.54	6.95	6.86	6.93
Tax rate	33	33	33	30	30	30
Pretax WACC	11.4	11.2	11.3	9.9	9.8	9.9

Source: Deutsche Bank estimates, company data

Germany's Energy policy remains ambitious and will likely lead to higher prices and increased supply risks**Phasing out of nuclear power will likely not help the German government reach its 2020 emission reduction targets.**

Germany's energy policy remains ambitious, in our view. Reducing GHG emissions, switching off nuclear power plants and reducing dependency of energy supply at the same time remain difficult. We see the following risks for Germany if the German government continues its "no nuclear policy": a) further power price rises, b) gas supply insecurity, c) a lack of generation capacity as Renewables will not reach the targeted level of 27% of power generation until 2020 if German power efficiency rates are not increasing by 3% until 2020 (it went only up 1.25-2.2% in the last years supported by East German modernization). We believe that if nuclear power is phased out in Germany, total emissions – assuming the other sectors are in practice able to achieve their targets – would fall by only 29% by 2020 against 1990 levels, rather than by the 40% aspired to by the German government.

The German government continues to stick to its plan to phase out nuclear power stations after 32 years of operating life (measured in output terms), granting an allowed output

according to a standardized load factor over 32 years, well below the technical capability of between 40-60 years. Nevertheless, while the German government is not touching the current coalition agreement of phasing out nuclear, the coalition partners seem to differ in their views, with CDU/CSU being supportive to lifetime extension and SPD against it. Additionally, a recent poll in Germany by TNS Emnid seems to indicate that the German population is becoming more aware of the issue of rising power prices and security of supply, and a majority of Germans seem to support the idea of lifetime extension to guarantee a smooth changeover to Renewables.

The law provides for Germany's total nuclear capacity of 22GW to be closed down, giving a total remaining allowed output of 2,623TWh from 1 January 2000. This comprises 2,484TWh from stations still running today, and 134TWh from stations that were closing just at the time the law was passed or that have closed since (where, in both cases, some of the output from these stations was allowed to be transferred to other stations).

By 31 July 2006, the total amount of remaining output had declined to 1,580TWh, giving total production of 1,015TWh in the intervening six years and seven months. This equates to an annualized average output of 156TWh per year since January 2000.

As at the beginning of 2008, the total remaining nuclear capacity will be 20.3GW, with total remaining output of approximately 1,362TWh, according to our estimates. Assuming 150TWh per year, this would give just under 10 years of nuclear production remaining, but in practice the decline will likely be a more gradual one, in line with the scheduled closure dates of the stations left. Given that Biblis was out between Q4 06 and Q4 07, we believe the next year of closure would be 2009.

Figure 27: Phase-out of Nuclear Power between 2009 and 2022E

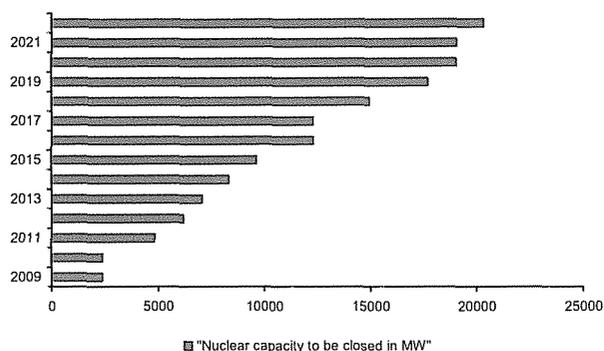
TWh remaining by 2000 according to Nuclear Energy Act	MW	Start Date	Allowed Output Jan 2000 (TWh)	Allowed Output July 2007 (TWh)	Allowed Output Jan 2008 (TWh)	Estimated DB Closure Date	Estimated DB Closure Date Expected
Biblis A*	1167	1974	62	14.9	13.50	2	2009
Neckarwestheim-1	785	1976	57	17.7	8.93	2	2011
Biblis B**	771	1976	81	26	17.39	3	2011
Brunsbüttel	1240	1976	48	16.3	5.22	2	2009
Isar-1	878	1977	78	34.2	24.39	4	2011
Unterweser	1345	1978	118	56.7	41.68	4	2012
Philippsburg-1	890	1979	87	38.7	28.76	4	2013
Grafenrheinfeld	1275	1982	150	84.2	69.96	7	2014
Krummel	1284	1983	158	97.8	83.46	9	2016
Gundremmingen B	1284	1984	161	94.8	80.46	8	2015
Gundremmingen C	1392	1984	168	103.2	87.65	8	2016
Philippsburg-2	1288	1984	201	129.4	115.01	12	2018
Grohnde	1360	1984	201	129.5	114.31	11	2018
Brokdorf	1370	1986	218	144.7	129.40	13	2019
Isar-2	1400	1988	231	155.6	139.96	13	2019
Emsland	1329	1988	230	157.7	142.86	14	2020
Neckarwestheim-2	1269	1989	236	166.9	152.73	16	2022
Total:	20327		2499	1468.3	1255.67		
Mülheim-Kärlich***	1302	1976	107.3	107.3	107.3		
Stade***	672	1976	23.2	4.8	0		
TOTAL	22301		2623.4	1580.4	1362.3		

Source: Deutsche Bank *Given the ongoing outage from Q4 of 2006, Biblis A may not now close until 2009E. **With approx. 20TWh of transferred output from Mülheim-Kärlich, Biblis B will in practice probably not shut until 2011E. ***The re-allocation of a large part of this production has yet to be decided. In practice this means that, like Biblis B, some of the other plants here will close later than their own remaining output alone would imply.

Figure 27 sets out the number of remaining TWh output granted to each station under the so-called nuclear-consensus law from 2000, together with the output left as at 1 January 2008, according to our estimates.

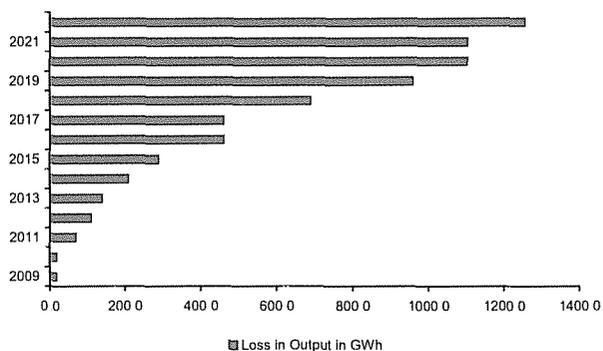
Figure 28 shows estimated accumulated capacity closures and Figure 29 of accumulated lost annual output over 2009-2022. We estimate that the last nuclear station will close in 2022, but that capacity and output will halve against current levels by 2015E/16 (this is before taking into account the 112TWh to be transferred from Mülheim-Kärlich and Stade).

Figure 28: Expected closure of Germany's nuclear capacity (MW)



Source: German Government, Deutsche Bank estimates

Figure 29: Loss in nuclear output in Germany (TWh)



Source: German Government, Deutsche Bank estimates

To put these planned closures into context, it is useful to look at nuclear power as a proportion of total available capacity. According to the Association of German Power Grids (the VDN) the net available capacity in 2006 was 124.3GW (Figure 31). This would mean that Germany's nuclear stations accounted for 16% of the total in 2006.

Figure 30: Reliable Available Capacity in Germany 2006 (GW)

	2004	2005	2006
	Dec-16	Dec-15	Dec-11
Total German plant capacity	114.6	119.4	124.3
Unusable Capacity	17.9	22.8	23.8
Reserve Capacity	7.2	7.1	7.9
Outages and Overhauls	3.5	6.8	6.4
Reliable available Capacity	86	82.7	86.2

Source: VDN

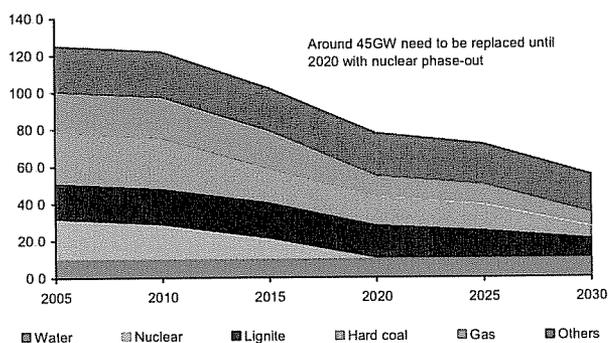
In reality, however, this understates the true proportion of capacity accounted for by nuclear, because much of the capacity theoretically available is not reliable at all times.

For example, Germany has the largest amount of wind capacity in the world (approximately 20GW expected to grow to 28GW in 2010, according to DB estimates) and the availability of wind power is much lower than for other kinds of generation. As a result, once adjustments are made for unusable capacity, reserve capacity, and outages, the real figure for reliable available capacity is much lower. As shown in Figure 30, on VDN estimates the number for total German capacity in 2006 would be 86.2GW, so nuclear would account for around 23.5%. As a result, phasing out 20.3GW of nuclear capacity over the next 15 years raises obvious questions about Germany's capacity margins in the future, especially as these are already below the 10% level generally regarded as an indication that new plants are needed in order to prevent a high level of blackouts.

The phase-out of nuclear power and returning to a capacity margin of at least 10% is clearly likely to precipitate a very large new-build programme over the next 10-15 years, but the capacity problem in Germany over the next decade has two other factors worth considering:

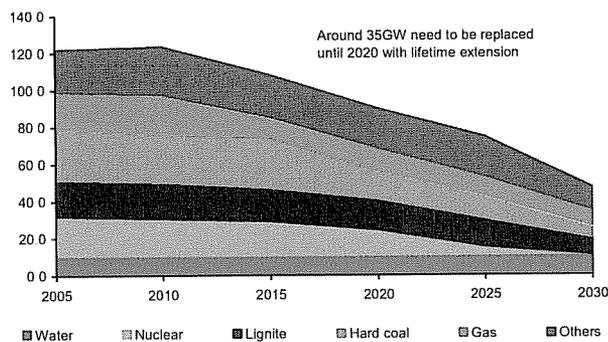
1. In addition to the loss of 20GW of nuclear power, a further 20-25GW of fossil-fuel fired plant would come off line over 2010-2020 if we were to assume that all power plants were replaced after 40 years' operating life. Figure 31 shows the total amount of plant that would come off line by 2020E assuming the phase-out of nuclear, and that all fossil-fuel plants are replaced after 40 years. Figure 32 with life-time extension.

Figure 31: 45GW replacement needs without nuclear



Source RWE

Figure 32: 35GW with lifetime extension

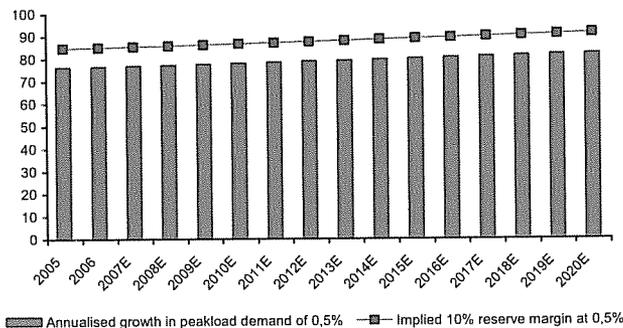


Source RWE

2. Even in a mature economy such as Germany, organic growth in demand can be expected to increase the peak-load capacity requirement over time. Although we would expect the rate of increase to be clearly below the trend-rate of growth in GDP, assuming a range in annualised growth in peak-load demand over 2007E-2020E of only 0.5%-1% would still give rise to a need for 6.6GW-13.6GW of new capacity by 2020E.

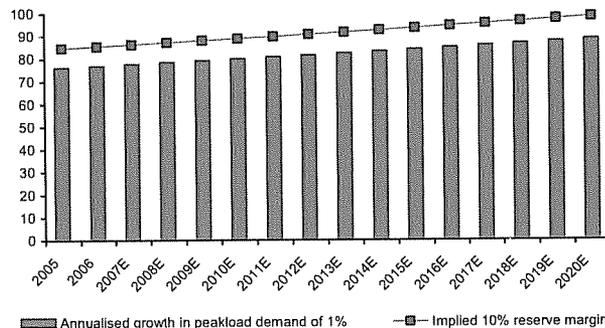
Figures 33 and 34 assume that capacity levels must rise by an initial 2.5GW to bring the reserve margin back to the desired 10% level, and that capacity then grows over time in line with the need to maintain this ratio assuming annual growth in peak-load demand of 0.5% and 1%, respectively.

Figure 33: New capacity required to maintain 10% reserve margin at 0.5% growth, 2005-20E (GW)



Source VDN, RWE, Deutsche Bank

Figure 34: New capacity required to maintain 10% reserve margin at 1% growth, 2005-20E (GW)



Source VDN, RWE, Deutsche Bank

In short, assuming that Germany aims to re-establish a reserve margin of 10% against a backdrop of 0.5%-1% growth in peak-load demand over the next 15 years, that the nuclear phase-out goes ahead, and that all fossil-fuel plants are replaced after 40 years, then we calculate that total capacity required by 2012 would be 18-21GW, and by 2020 be 49GW-56GW (Figure 35).

Figure 35: Total potential new capacity required in Germany over 2010E-2020E (GW)

Motive for building new capacity	2012E	2012E-2020E	TOTAL BY 2020E
Amount required to re-establish a capacity margin of 10%	2.5	0.0	2.5
Annualised organic growth in peak-load demand (0.5%-1%)	3.0-6.1	3.6-7.5	6.6-13.6
Nuclear phase-out	6.2	14.1	20.3
Withdrawal of fossil-fuel plants after 40 years' operating life	6.5	13.5	20.0
TOTAL	18.2-21.3	31.2-35.1	49.4-56.4

Source: Deutsche Bank

So what are the current plans for new build in Germany?

New projects indicate high share of CO₂-intensive fossil-fuels

Figure 37 sets out the new-entrant power projects currently in various stages of planning in Germany, as based on a report by the German power-generation association (VDEW) and cited in a Reuters newswire report of 14 September 2006, and according to data from VDEW. According to this report, a total 24GW (was around 22GW in January 2007 and mainly added by hard coal plants) are planned by 2012, of which 8,525MW of gas, 3,575MW of lignite, and 12,280MW of coal, so the majority of new projects are coal and gas.

The two key questions this list of new projects raises are (i) how much of this capacity is actually needed?; and (ii) given price rises in the construction/equipment market how many of these projects are actually likely to go ahead?

Our calculations in Figure 35 lead us to assume that 18GW-21GW of new plant would actually be required by 2012, so the 24GW of potential new projects in Figure 36 looks reasonable. This probably reflects the fact that until the Commission's ruling on Germany's Phase-2 NAP, there was an obvious incentive under the 4+14/4+10 rules to commission new lignite and coal plants to replace older, less efficient ones. In other words, there was an incentive to bring forward the withdrawal date of older lignite and coal plants even before they had reached their standard 40 years of operating life and to replace older lower efficiency/higher carbon ones with more modern ones.

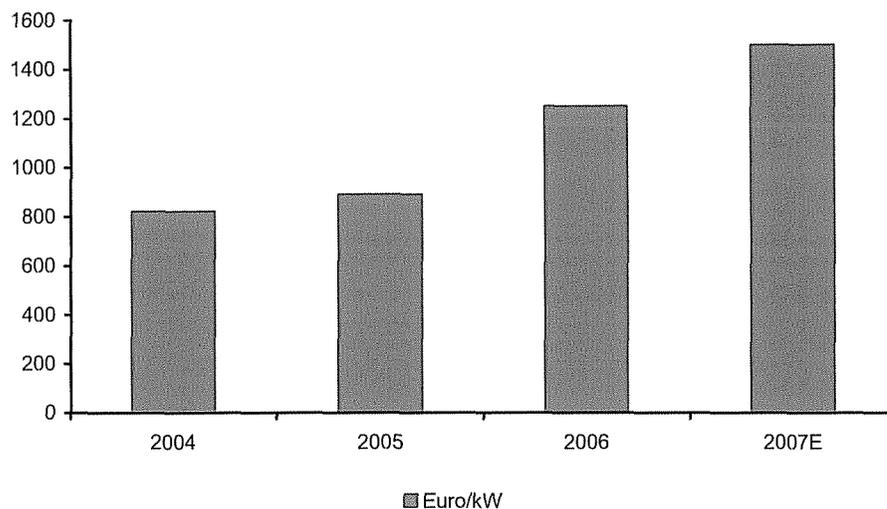
This means that even if all of this plant were to have been built, it would not necessarily have led to overcapacity relative to our assumed requirement of 18GW-21GW, as it probably would have meant that more of the older plant would have closed sooner.

Additionally, rising construction prices continue to put pressure on new power plant projects with construction costs for new coal plants being up by around 30% since 2005, thus making new projects more unlikely now given that many local Utilities in Germany struggle to run new projects; with Rhein-Energie stopping plans for a 800MW plant in Cologne-Niehl, Bremens SWB stopped a coal plant as well, partly due to pricing and ongoing political pressure on new coal plants, and the City of Krefeld stopped a 750MW coal plant project. Also the 1,600MW plant in Hamburg mentioned in Figure 36 is under discussion in local politics. According to Trend Research, 22% of planned projects have been stopped and thus further increasing the risk of generation shortage and power price rises in 4 to 8 years.

Figure 36: Planned new capacity in Germany in October 2007 (MW)

Location	Developer	Fuel	Capacity	Expected start-up
Lubmin I	Concord Power	Gas	1200	2008
Hamburg	Vattenfall	Gas	125	2007
Hamm-Uentrop	Trianel Power	Gas	800	2007
Herdecke	Mark-E/Statkraft	Gas	400	2007
Hurth	Statkraft	Gas	800	2007
Braunschweig	Braunschweiger VErsorg	Gas	400	2008
Irsching 5	E.ON	Gas	820	2008
Lingen	RWE	Gas	850	2009
Bocholt	Advanced Power/Siemens	Gas	400	2009
Mecklar Marbach	Iberdrola	Gas	1000	2010
Eisenhüttenstadt	Gazprom	Gas	800	2010
Frankfurt	Nuon	Gas	400	2010
Irsching 4	E.ON	Gas	530	2011
Neurath BoA II and III	RWE	Lignite	2100	2010
Boxberg	Vattenfall	Lignite	675	2011
Berlin	Vattenfall	Lignite	800	2012
Lünen	Trianel Power	Hard coal	750	2012
Duisberg-Walsum	Steag/EVN	Hard coal	700	2010
Lünen	Steag	Hard coal	750	2012
Hamburg-Moorburg	Vattenfall	Hard coal	1680	2011/12
North Germany	Electrabel	Hard coal	800	2010/11
Datteln	E.ON	Hard coal	1050	2011
Bremen-Mittelbueren	Stadtwerke Bremen	Hard coal	800	2011
Ruhr Region	EWMR (Bochum)	Hard coal	1100	2011
Herne 5	Steag	Hard coal	750	2011
Hamm-Uentrop	RWE	Hard coal	1600	2012
Mainz	KMW Mainz Wiesbaden	Hard coal	800	2011
Lubmin	Dong	Hard coal	1600	2012
Düsseldorf	Stadtwerke Düsseldorf	Hard coal	400	2012
Brunsbüttel	Iberdrola/südweststrom	Hard coal	800	2012
Staudinger VI	E.ON	Hard Coal	1100	2012
TOTAL			24,380	

Source: VDEW, Reuters, October 2007

Figure 37: Costs/kW for new coal plant construction

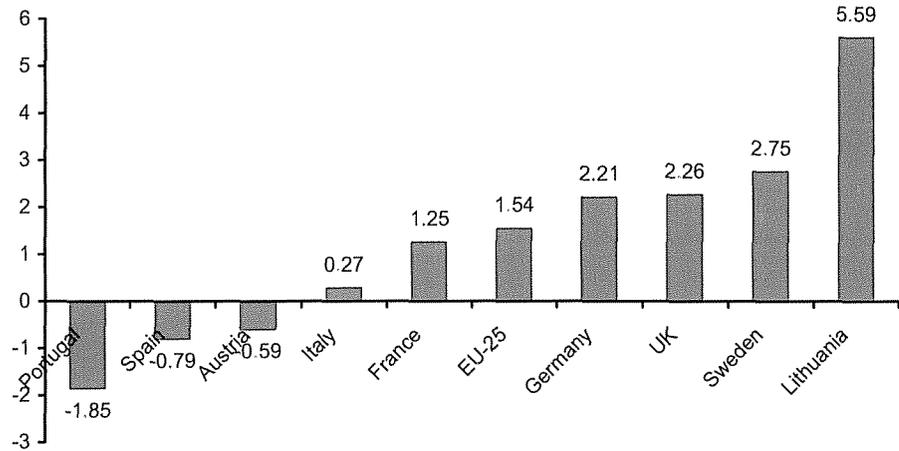
Source: Trend Research

The scenario is contrary to the German government's two key energy-policy objectives, as a large portion of planned coal plants would lead to significantly higher carbon emissions (at least until reliable CCS technology is available) than targeted and greater dependence on foreign energy supplies by 2020. One way to reach the government's target despite these facts is to increase the energy efficiency in Germany forwarding the future.

Raising energy efficiency by 3% pa has not happened before

Given the current law, nuclear power is planned to be phased out and the German government currently wants Renewables Energy to have a share of around 27% in power generation in 2020 from around 12% today. The underlying assumption is a 3% gain in Power Efficiency (that is power used for creating GDP) in Germany. While the German Energy Agency states that between 1995 and 2005, Germany improved efficiency by 2.2%pa on average, the German Industry Association states that efficiency increased by 12.5% between 1995 and 2005 or around 1.2%pa. In any case this data includes a period of industrial modernization in Eastern Germany and thus is likely to be biased, in our view. So raising energy efficiency towards a 3% level remains ambitious, from our perspective, and the budget for climate policy has been raised to Euro 2.6bn in 2008 from Euro 0.8bn in 2005, around 225% higher.

Figure 38: Average annual improvement in power efficiency between 1995 and 2002



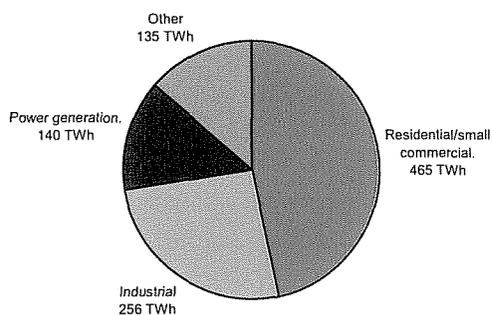
Source: German Energy Agency

New plant projects increase dependency on imported gas

In 2005, Germany's total gas demand was 996TWh (Figure 35), with residential and small commercial customers accounting for nearly half of this (465TWh), and industrial customers for 26% (256TWh). Gas for use in power generation accounted for only 14%, at 140TWh.

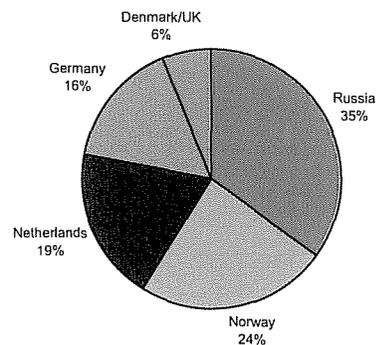
Meanwhile, the sourcing of Germany's gas shows that it is already very heavily dependent on foreign imports, with Russia accounting for 35% of requirements in 2005, Norway for 24%, and the Netherlands for 19%. Germany itself provided only 16% of its own needs, and with reserves running down, this number looks set to decline over time.

Figure 39: German gas-demand by end-user, 2005 (TWh)



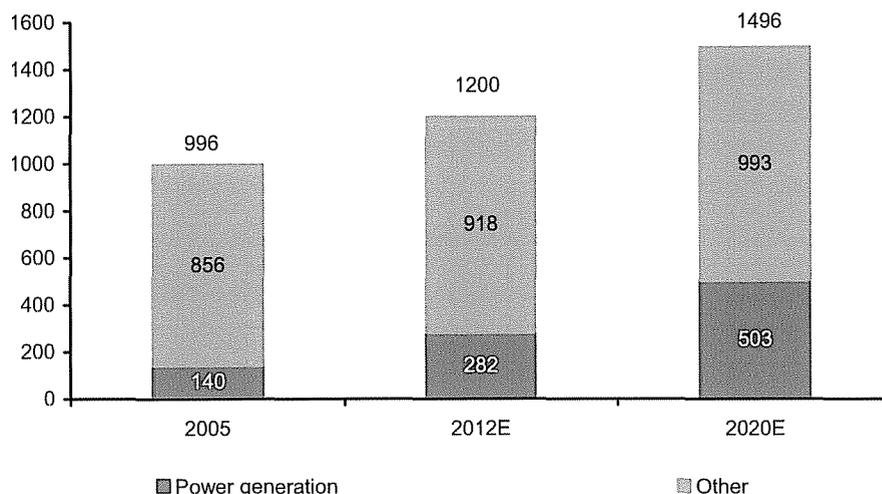
Source: German Gas and Water Federation, German Government, RWE

Figure 40: Sources of German gas, 2005 (%)



Source: German Gas and Water Federation, RWE

As per our assumptions for new gas-fired power-generation capacity over 2010-2020 as outlined in Figure 29, we estimate that gas consumed by power plants in Germany will rise very sharply in both absolute and relative terms over the next decade.

Figure 41: Assumed increase in German gas demand with nuclear phase-out (TWh)

Source: VGB PowerTech e.V.

In total, we assume 27.6GW of new gas plant will be required if the nuclear phase-out goes ahead as planned, and that this plant would be generating an extra 206TWh of electricity by 2020E compared with the amount of power generated from gas in 2005.

However, even assuming state-of-the-art efficiency rates of 57% in gas plants, demand for gas from power generators should increase by 362TWh by 2020, to 503TWh from 146TWh in 2005. This would represent an increase of 260% on 2005 levels.

Moreover, if we assumed average annualised growth in gas demand over 2005-20 for the rest of the economy, then we estimate that total demand would increase by 50% by 2020 against 2005 levels: 363TWh for power plants, and 138TWh for the rest of the economy (Figure 46).

Despite an increasing share of LNG imports of around 19% in 2020 (vs. 10% in 2005) in Europe, E.ON Ruhrgas expects around 9% supply shortfall in 2015 and 22% in 2020. In that shortfall scenario, Russia would remain a major gas supplier with 155-160cbm pa in 2020E from currently around 140cbm pa.

Clearly, an increase in demand on this scale would lead to an ever greater reliance on imported gas over time. Given that Russia and Norway are probably the best positioned of Germany's existing suppliers to increase their exports. In short, phasing out nuclear power would be clearly negative for Germany's supply security.

In our view, Germany cannot phase out usable, carbon-free generation capacity if it wants to fulfil its own GHG targets and keep supply risks low

Phasing out nuclear power stations long before the end of their technically feasible lifetimes reduces the length of the capital cycle and therefore increases the long-term power price unnecessarily, in our opinion.

In addition, though, this policy clashes directly with the German government's two main energy-policy objectives today: (i) reducing carbon emissions over time, and (ii) ensuring security of supply. Interestingly, we believe that the best way to address this issue politically

would be to change demand behaviour, thus trying to increase energy efficiency. With its new Climate protection program, the Government intends to increase efficiency by 3%pa to avoid constraints in power supply. Germany has not shown these improvements over a longer period of time and thus it seems reasonable to assume that it is unlikely to happen in the future, in our view.

As a result, we believe that either a) political crisis in phases of high gas demand might lead to a shortage in gas supplies and highly volatile power prices, or b) over time higher power prices (due to higher new entrant prices) will raise public awareness of the impact nuclear power can have in stabilizing power supply (and prices), keep carbon emissions low and allow a secure change from a "thermal-oriented" to a "renewable-oriented" energy in Germany. The German Elections in 2009 will be critical for nuclear power in Germany, we believe. The recent nuclear incidents in Krümmel/Brunsbüttel indicated low public backing of lifetime extension, but we believe public opinion might change in the election period with further rising power prices or a shortage in gas supply due to political shocks. Recent polls indicate that Germans are starting to support lifetime extension, and we continue to assume lifetime extension in our forecasts.

DB forecasts

Changes to our forecast

While we were restricted on Endesa until last week we now include the following changes into our model:

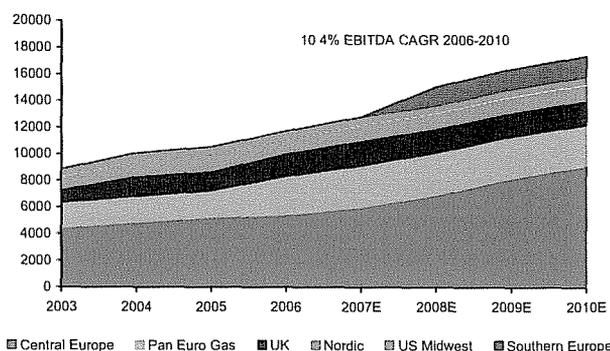
We include the Endesa acquisition after Enel/Acciona gained control over Endesa in October and now hold 92.1% of Endesa after the tender offer finished. We thus no longer see major hurdles in the acquisition of Endesa assets by E.ON, and expect the transaction to close in the next few months.

We also adjust for the share buyback program and include Euro 7bn share buyback in our forecasts as well as the new Capex program the company announced and which we discussed in previous sections.

We also take DB's medium-term oil price forecast of \$60/bbl (previous \$44/bbl), stick to our carbon price forecast of E25, with our new German power price assumption as the new entrant price going to Euro 60/MWh in 2010 with current 1-year (E56.5/MWh) and 2-year (Euro 56) wholesale forward prices being used for our calculations, with gas remaining the predominant entrant, and hard coal remaining an option, which is under public/political pressure in Germany until CCS technology is available (and given that they get into a disadvantage with rising CO2 prices without CCS).

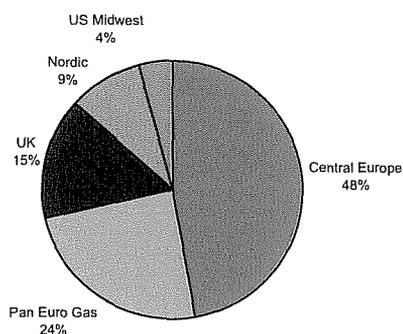
We now expect E.ON to deliver 9% CAGR EBITDA growth until 2010 and see Euro 12.7bn adj. EBIT in 2010, around 300m ahead of company forecast. Main drivers should remain Central Europe and Pan Euro-Gas, which account for over 70% of EBITDA.

Figure 42: Divisional EBITDA Development



Source: Company data and Deutsche Bank estimates

Figure 43: EBITDA split



Source: Deutsche Bank

Divisional details

Figure 44: Divisional EBITDA/EBIT 2003-2010E

EBITDA (€ m)	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Central Europe	4471	4908	5284	5484	6028	6478	7325	8075
Pan Euro Gas	1896	1900	1939	2839	3086	3171	3289	3430
UK	1036	1592	1550	1790	1820	1825	1914	1938
Nordic	933	1121	1193	992	1201	1374	1477	1599
US Midwest	517	539	560	590	549	533	549	565
Southern Europe						1392	1453	1518
Corporate Centre	-273	-273	-386	-395	-395	-415	-431	-457
Core Energy Businesses	8580	9787	10140	11300	12289	14357	15576	16668
Other Activities	878	728	132	53	0	0	0	0
Total Group	9458	10515	10272	11353	12289	14357	15576	16668

EBIT (€ m)	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Central Europe	2979	3602	3930	4168	4667	5009	5755	6417
Pan Euro Gas	1463	1428	1536	2106	2316	2363	2440	2539
UK	610	1017	963	1229	1228	1203	1266	1248
Nordic	546	701	806	619	837	991	1076	1178
US Midwest	317	354	365	391	350	338	346	354
Southern Europe						1150	1227	1309
Corporate Centre	-319	-314	-399	-416	-370	-400	-390	-380
Core Energy Businesses	5596	6788	7201	8097	9 028	10653	11719	12665
Other Activities	632	578	132	53	0	0	0	0
Total Group	6228	7366	7333	8150	9 028	10653	11719	12665

Source: Deutsche Bank, company data

Figure 45: Adjusted EBIT, Quarterly results E.ON (IFRS), (Euro m)

E.ON Quarterly	Q1 06	Q2 06	Q1 07	H1 07
Central Europe	1418	1077	1,431	2,544
Pan-European Gas	958	739	1,126	1,631
U K	43	412	436	741
Nordic	299	126	287	475
U.S. Midwest	112	78	93	176
Corporate Center	-100	-73	-58	-141
Group	2730	2359	3,315	5,426

Source: Deutsche Bank, company data

Group P&L

Figure 46: Profit & Loss statement

E.ON	2003 A	2004 A	2005 A	2006 A	2007 F	2008 F	2009F	2010F
TOTAL SALES	46,427	48,908	56,399	67,759	69,041	77,791	80,062	83,468
Sales tax	-3,894	-4,369	-4,545	-3,562	-3,596	-3,630	-3,666	-3,703
TOTAL SALES (ex tax)	42,541	44,539	51,854	64,197	65,445	74,160	76,395	79,764
Other Operating Income	0	0	0	0	0	0	0	0
TOTAL INCOME	44,204	44,539	51,854	64,197	65,445	74,160	76,395	79,764
COST								
Material	25,832	25,574	29,410	32,351	32,351	33,321	34,321	35,351
Personnel	6,685	4,712	4,579	4,556	4,533	4,511	4,488	4,466
Others	2,228	3,738	7,593	15,937	16,272	21,971	22,011	23,280
TOTAL OPERATING COST	34,746	34,024	41,582	52,844	53,156	59,803	60,820	63,097
EBITDA	9,458	10,515	10,272	11,353	12,289	14,357	15,576	16,668
EBITDA margin	20.4%	21.5%	18.2%	16.8%	17.8%	18.5%	19.5%	20.0%
Depreciation	3,110	2,851	2,857	2,930	3,308	3,704	3,856	4,003
Impairment		120	308	82	273	0	0	0
% of sales	6.7%	5.8%	5.1%	4.3%	4.8%	4.8%	4.8%	4.8%
EBIT	6,228	7,356	7,333	8,150	9,028	10,653	11,719	12,665
EBIT margin	14.6%	16.5%	14.1%	12.7%	13.8%	14.4%	15.3%	
Interest Income	716	796	1,008	1,245	1,067	832	1,020	824
Interest Expense	-1,885	-1,799	-1,783	-1,937	-1,800	-2,259	-3,038	-3,221
Interest Portion of LT provisions	-494	-137	-252	-389	-292	-297	-301	-306
PRE-TAX PROFIT	4,565	6,216	6,306	7,069	8,005	8,929	9,400	9,962
Pre-tax margin	9.8%	12.7%	11.2%	10.4%	11.5%	11.5%	11.7%	11.9%
Extraordinary Income	1,257	686	931	1,205	1,300	0	0	0
Extraordinary Expense	-284	-108	-29	-3,141	-300	0	0	0
PRE-TAX PROFIT (incl. extraordinary)	5,538	6,794	7,208	5,133	9,005	8,929	9,400	9,962
Tax	1,124	1,947	2,276	(323)	2,320	2,679	2,820	2,989
Tax rate	20.3%	28.7%	31.6%	-6.3%	25.0%	30.0%	30.0%	30.0%
PROFIT AFTER TAX	4,414	4,847	4,932	5,456	6,799	6,250	6,580	6,973
Minorities	(464)	(504)	(553)	(526)	(672)	(694)	(705)	(744)
Income from Cont. Ops	3,950	4,343	4,379	4,930	6,127	5,556	5,875	6,229
Net income margin	8.5%	8.9%	7.8%	7.3%	8.9%	7.1%	7.3%	7.5%
Adjustments	(440)	(9)	3,028	127	0	0	0	0
Net Income	4,647	4,334	7,407	5,057	6,127	5,556	5,875	6,229
Net Income (clean)	3,269	3,480	3,674	4,386	4,935	5,556	5,875	6,229
Number of shares (m)	654.0	657.0	659.0	659.0	644.4	616.3	603.7	605.7
Number of shares (m), year end	654.0	657.0	659.0	659.0	629.8	601.7	603.7	605.7
EPS	6.04	6.61	6.64	7.48	9.51	9.02	9.73	10.28
EPS (Recurring)	5.00	5.30	5.58	6.66	7.66	9.02	9.73	10.28

Source: Deutsche Bank and company data

Balance Sheet**Figure 47: Balance Sheet**

E.ON	2003 A	2004 A	2005 A	2006 A	2007 F	2008 F	2009F	2010F
Balance Sheet(Euro m)								
Tangible assets	42,836	43,563	41,323	42,712	46,254	67,550	74,694	81,191
Intangible assets	18,069	18,242	19,488	18,873	18,873	18,873	18,873	18,873
Financial assets	17,725	17,263	21,686	28,302	28,302	28,302	28,302	28,302
Fixed assets	78,630	79,068	82,497	89,887	93,429	114,725	121,869	128,366
Cash and liquid assets	10,795	12,016	15,119	6,187	3,185	1,094	2,492	-438
Debtors	6,053	6,534	8,269	9,756	9,941	11,200	11,527	12,018
Stocks	2,477	2,647	2,457	3,990	4,065	4,581	4,714	4,915
Other	13,895	13,797	18,220	17,412	17,412	17,412	17,412	17,412
Current Assets	33,220	34,994	44,065	37,345	34,603	34,287	36,146	33,906
TOTAL ASSETS	111,850	114,062	126,562	127,232	128,032	149,012	158,015	162,272
Share capital	1,799	1,799	1,799	1,799	1,722	1,648	1,648	1,648
Reserves	11,564	11,746	11,749	11,760	8,337	4,911	4,911	4,911
Retained earnings	16,411	20,015	30,936	34,286	37,758	40,495	43,246	46,118
Minorities	4,625	4,144	4,734	4,917	5,589	6,283	6,988	7,732
Shareholders' equity	34,399	37,704	49,218	52,762	53,406	53,337	56,793	60,409
Interest bearing ST-Debt	5,191	6,761	3,807	3,440	3,440	3,440	3,440	3,440
Creditors	3,768	3,627	5,272	5,305	5,405	6,090	6,268	6,535
Others	7,714	2,170	1,084	17,832	17,832	17,832	17,832	17,832
Deferred income	6,265	3,987	6,946	619	619	619	619	619
Current Liabilities	22,938	16,545	17,109	27,196	27,296	27,981	28,159	28,426
Provisions	26,764	25,653	25,142	20,406	20,406	20,712	21,023	21,338
Pension provisions	7,442	8,589	8,720	3,769	3,826	3,883	3,941	4,000
Interest bearing LT-Debt	14,803	13,540	10,555	9,959	9,959	29,959	34,959	34,959
LT-Creditors	13	35	16	0	0	0	0	0
Others	4,411	11,088	14,985	5,846	5,846	5,846	5,846	5,846
Deferred income	1,080	908	817	7,294	7,294	7,294	7,294	7,294
Long-term liabilities	54,513	59,813	60,235	47,274	47,331	67,694	73,063	73,437
EQUITY & LIABILITIES	111,850	114,062	126,562	127,232	128,032	149,012	158,015	162,272

Source: Deutsche Bank and company data

Cash-flow**Figure 48: Cash-flow statement**

E.ON	2003 A	2004 A	2005 A	2006 A	2007 F	2008 F	2009F	2010F
Net income (after minorities)	4,647	4,334	7,407	5,057	6,045	5,556	5,875	6,229
Depreciation	3,272	3,159	3,068	3,751	3,308	3,704	3,856	4,003
Additions (Reductions) in Provisions	-1,654	-1,263	-3,400	-849	57	363	369	374
CASH FLOW	6,265	6,230	7,075	7,959	9,409	9,624	10,100	10,606
CFPS	11 00	9 48	10 74	12 08	14 60	15 62	16 73	17 51
STATED CASH FLOW	10,013	5,840	6,544	7,194	9,409	9,624	10,100	10,606
Delta		2,795	(390)	(531)	(765)	0	0	0
REPORTED CFPS	15 26	8 89	9 93	10 92	14 60	15 62	16 73	17 51
Minorities (add back)	464	504	553	526	672	694	705	744
Decrease (Increase) Working capital	-1,191	-767	-1,027	-1,291	-160	-1,090	-283	-424
TOTAL OPERATING CASH FLOW	5,538	5,967	6,601	7,194	9,921	9,228	10,522	10,926
Capex	-9,196	-5,285	-4,337	-5,161	-7,400	-25,000	-11,000	-10,500
Disposals	7,035	3,457	6,599	3,954	550	0	0	0
Dividend (previous year)	-1,614	-1,616	-1,794	-4,856	-2,573	-2,819	-3,124	-3,357
FREE CASH FLOW	1,763	2,523	7,069	1,131	498	-18,591	-3,602	-2,931
Consolidation of acquisitions	-1,200	-1,300						
Other Effects	2,200	1,232	2,690					
Share buy-back	0	0	0	0	-3,500	-3,500	0	0
FREE CASH FLOW (after rights issue)	2,763	2,455	9,759	1,131	-3,002	-22,091	-3,602	-2,931

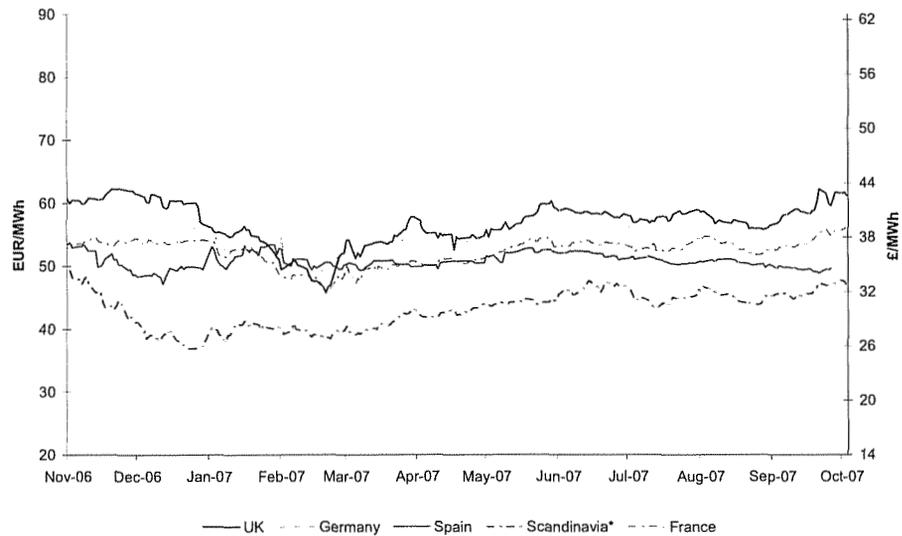
Source: Deutsche Bank and company data

Valuation

Raising TP to Euro 145 due to rising input prices, growth Capex

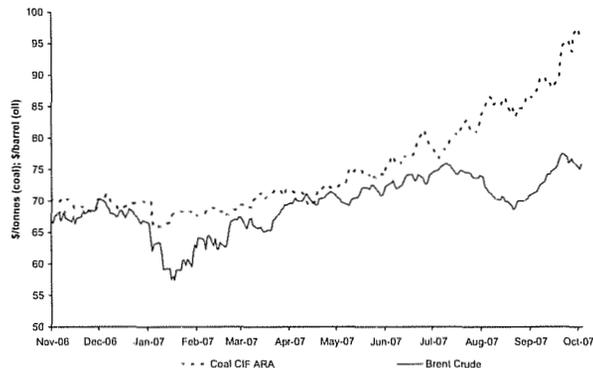
We value E.ON based on an SotP method at Euro 145, implying 13% upside potential (+ additional 3.1% current dividend yield) from the current share price after we updated our forecasts (based on Euro 60/MWh new-entrant power price in Germany, Euro 25 Carbon, oil at \$60/bbl). German power prices have continued to rise in recent weeks with oil and coal at record levels. German forward prices have been rising (driven by coal, gas and CO₂ certificate prices) over the last couple of weeks and E.ON continues to be a major gainer from rising power prices given that 50% of its 2006 power generation came from nuclear power. We continue to see input prices increasing with coal prices reaching record levels and gas prices rising, as can be seen in Figure 50.

Figure 49: German 1-year forward power price at in the range Euro 56-57 currently



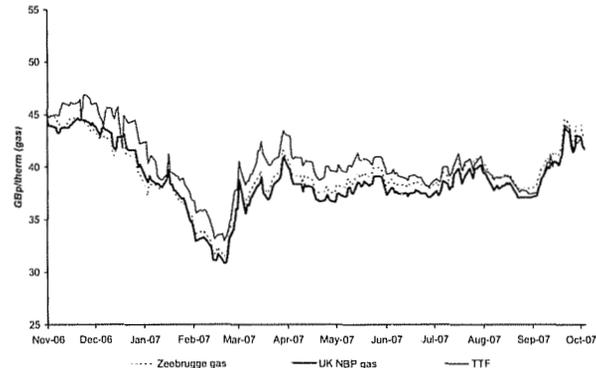
Source Reuters. Deutsche Bank

Figure 50: Coal and Oil prices continue upwards trends



Source Reuters. Deutsche Bank

Figure 51: Gas prices



Source Reuters. Deutsche Bank

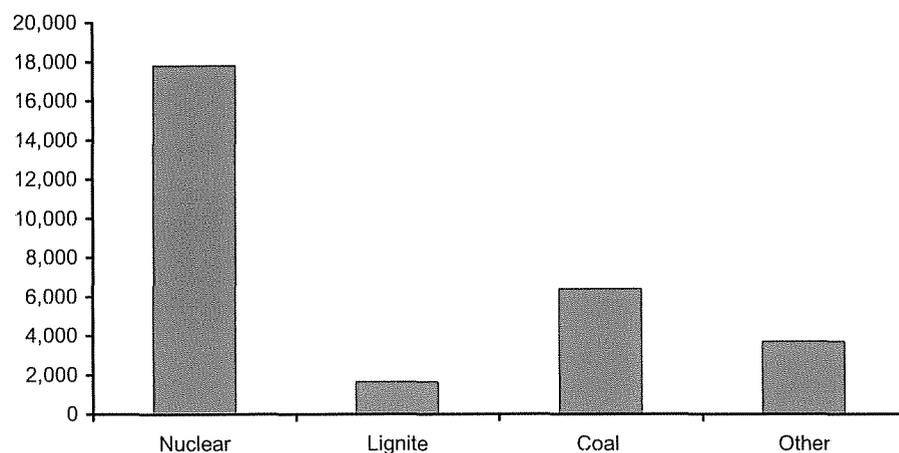
Figure 52: German electricity prices remain strong

Forward price movements	-1 mth	-3 mths	-6mths	-12mths
Brent crude	6.3%	1.3%	8.1%	14.0%
ARA CIF Coal price	10.3%	23.8%	34.5%	35.6%
TTF Gas Price	10.1%	8.0%	2.2%	-13.4%
UK NBP gas price	10.2%	11.4%	8.9%	-7.0%
CO2 emission price	5.9%	-1.1%	30.3%	32.5%
UK electricity price	9.8%	10.5%	13.0%	4.0%
German electricity price	3.1%	1.9%	5.4%	3.8%
Spanish electricity price	-1.7%	-3.6%	-1.9%	-9.3%
Scandinavian electricity price	2.8%	5.9%	12.2%	-6.5%

Source: Deutsche Bank

E.ON power generation most important component in SotP

For E.ON, Power Generation remains the most important component of our SotP valuation with 24% of total value or Euro 51 per share. We continue to assume a 20-year life extension of nuclear power plants in Germany, assuming that 50% of nuclear output will be taxed. We believe that nuclear lifetime extensions are likely to be used to finance subsidies for a further expansion of renewable energy in Germany. We have assumed a lifetime extension of around Euro 9 in our TP valuation.

Figure 53: E.ON German Power Generation Valuation around 24% of EV

Source: Deutsche Bank estimates

Figure 54: SotP E.ON

	Euro m	Euro/share	Comment	EBITDA 2008E	Implied EV/EBITDA
Central Europe (Electricity)	45,637	76		6478	7.0
Generation (Germany/Europe ex Scandi)	30,428	51	Based on plant by plant SoTPs at €60/MWh	5483	7.2
German Transmission network	2,495	4	Based on estimated RAB		
German Elec Distr Networks	6,433	11	Based on estimated RAB		
German Gas Distr Networks	3,282	5	Based on 7.5x 2008E EV/EBITDA	438	7.5
CEE distr Assets	3,000	5	Based on 50% premium to acquisition price	558	5.4
Pan-Europe Gas	24,589	41		3171	7.8
Gas Upstream/Midstream	19,144	32	Based on 8x 2008E EV/EBITDA	2393	8.0
Gas Downstream (incl Thuga)	5,445	9	Based on 7x 2008E EV/EBITDA	778	7.0
UK (Powergen)	11,340	19		1825	6.2
UK Generation	5,437	9	Based on plant by plant SoTPs		
UK Retail Supply	2,528	4	Based on £200 per discreet customer		
Midland and East Midlands Distr	3,375	6	Based on 10% premium to RAB in March 07		
Nordic	10,029	17		1374	7.3
Southern Europe	10,000	17	Based on acquisition price	1392	7.2
US Mid-West (LG&E)	4,262	7	Based on comparable US companies	533	8.0
Holding Costs	-3,318	-6	Apply Group multiple	-415	8.0
Gazprom Stake	11,163	19	6.4% stake at current market prices with 10% discount for CGT		
SPP stake + Gasum Oy stake	1,149	2	SPP based on acquisition price Gasum Oy on 15x 2006 multiple		
BKW Stake	861	1	Based upon current market price		
Shares in unconsolidated affiliates	659	1	Book value		
Share investments, associates, LT securities	11,470	19	Book value (excluding those above and in CEE and German generation)		
Total Assets	127,842	212		14357	8.9
Net Debt (year-end 2007E)	-10,214	-17	Based on net debt but excluding securities held as fixed assets		
Other financial assets	446	1	Financial Receivables from affiliates and associates		
Nuclear provisions	-9,521	-16	Adjusted nuclear decommissioning provision		
Other provisions	-12,801	-21	Pensions, taxes, personnel and environmental costs		
Minorities	-8,328	-14	Based on 2008 P/E of 12		
Total Equity	87,424	145			
Total shares	602				
Value per share	145				

Source: Deutsche Bank estimates

E.ON trades at a discount to the sector

Year-to-date the Utilities sector has risen 10% versus the MSCI Europe 6.5% and E.ON 25% (6th best performer in Europe). Nevertheless, E.ON continues to trade at a discount, at 14.3x P/E 08E and 8x EV/EBITDA 08E versus the sector at 16.3x P/E 2008E, 8.8x EV/EBITDA 08E and a 3.6% dividend yield. At our target price, E.ON would trade at 8.6x EV/EBITDA and 16x P/E 2008E, a 5-6% discount versus the sector at 8.8x EV/EBITDA and 17x P/E 2008E.

Figure 55: European Utilities Sector Valuation overview

Country	Company	Current Price	Target Price	Rec. Price	Mkt Cap (EURbn)	EV (EURbn)	EV/EBITDA (x)			Adjusted P/E (x)			CAGR in EPS (%)			Dividend Yield (%)			CAGR in DPS (%)
							2006	2007E	2008E	2006	2007E	2008E	2006 - 2008E	2006	2007E	2008E	2006 - 2008E		
Austria	Verbund	40.2	35.0	Hold	12.4	12.5	11.9	11.6	11.1	23.0	20.6	19.1	13.9	2.0	2.5	2.7	21.1		
Czech Republic	CEZ	1273.0	1170.0	Buy	27.4	28.3	7.7	10.8	9.9	17.3	22.6	20.3	15.6	1.8	1.6	2.0	30.0		
Finland	Fortum	26.0	24.0	Hold	23.1	24.4	10.5	10.5	10.6	17.0	17.7	18.3	8.7	6.2	5.0	5.0	1.6		
France	Gaz de France	36.5	46.0	Buy	35.9	37.3	5.8	7.4	6.5	12.4	16.2	13.8	6.2	3.8	3.6	4.0	14.9		
	Suez SA	41.4	53.0	Buy	53.7	74.1	8.5	9.4	8.2	11.5	12.8	11.4	13.0	3.7	3.3	3.8	15.0		
	Veolia Environment	60.9	56.0	Hold	28.3	41.4	8.0	9.9	9.0	20.8	31.3	24.3	8.0	2.4	2.1	2.4	17.5		
Germany	E.ON	129.2	145.0	Buy	85.7	101.9	7.0	7.5	7.8	14.4	16.7	14.3	15.2	3.6	3.1	3.6	16.5		
	RWE	88.5	94.0	Buy	49.8	58.6	6.8	7.4	6.8	16.3	14.9	13.1	24.0	4.9	4.3	3.7	-3.9		
Greece	Public Power Corp	27.6	26.0	Hold	6.4	10.6	11.1	13.6	10.9	90.0	120.2	33.9	95.6	0.8	0.7	2.1	88.7		
Italy	Snam Rete Gas	4.4	4.6	Buy	8.2	14.0	9.0	9.7	9.0	16.2	18.5	16.3	9.0	5.1	4.7	5.2	10.0		
Portugal	Energias de Portugal	4.1	4.5	Buy	15.1	28.7	10.8	11.1	NA	12.2	18.7	NA	NA	3.6	3.1	NA	NA		
Spain	Aguas de Barcelona	27.4	22.3	Hold	4.0	5.6	9.5	8.5	7.6	30.6	26.4	21.0	20.7	1.7	1.8	1.8	5.0		
	Enagas	17.9	19.2	Hold	4.3	5.9	10.4	10.0	10.0	19.8	18.0	16.6	9.1	2.6	2.9	3.2	9.9		
	Gas Natural	38.4	36.2	Hold	17.2	20.7	8.3	9.6	8.9	17.7	20.0	18.6	18.5	3.8	2.7	3.0	8.2		
	Iberdrola	10.5	12.5	Buy	52.5	77.7	9.3	12.3	10.4	17.0	20.6	17.2	21.0	14.6	7.5	10.3	1.9		
	Red Electrica	36.0	51.0	Buy	4.9	7.6	11.6	10.6	9.5	25.0	22.0	17.0	21.2	2.5	2.8	3.6	19.4		
	Union Fenosa	42.1	42.0	Hold	12.8	18.7	8.4	9.2	8.1	16.1	17.6	13.7	20.8	3.1	3.3	4.0	27.9		
Switzerland	BKW	126.5	150.0	Buy	4.0	2.7	7.8	10.3	9.5	18.6	23.8	22.4	-5.3	2.3	2.1	2.1	0.0		
	EGL	1323.0	1360.0	Hold	2.1	1.9	6.2	8.9	8.4	9.4	13.4	13.3	4.0	2.1	1.5	1.7	10.6		
UK	British Energy Group Plc	554.0	660.0	Buy	8.2	11.5	7.2	7.0	5.4	12.8	14.0	10.9	6.6	2.4	6.5	7.2	71.7		
	Centrica	386.0	340.0	Hold	20.4	22.3	6.3	6.2	6.8	15.5	12.3	16.5	10.0	3.7	3.9	4.1	18.9		
	Drax Group Plc	606.5	950.0	Buy	3.0	3.4	5.5	4.2	4.6	8.2	5.9	6.5	-1.6	16.1	13.9	10.7	-28.6		
	International Power	445.8	300.0	Hold	9.6	14.3	7.6	8.3	8.0	14.4	16.5	16.5	13.6	2.6	2.3	2.4	17.3		
	National Grid	761.5	800.0	Buy	28.8	53.3	8.9	8.5	7.8	14.0	12.8	12.4	13.5	4.3	4.5	4.8	13.3		
	Kelda	893.0	890.0	Hold	3.8	7.3	11.1	10.3	9.5	15.1	13.4	11.9	14.8	3.8	4.2	4.4	9.8		
	Northumbrian Water Group	331.0	340.0	Buy	2.5	5.6	10.9	11.1	11.1	11.1	12.4	12.9	1.2	4.1	3.6	3.8	5.8		
	Pennon Group	620.5	560.0	Hold	3.1	5.5	11.8	11.7	11.6	16.7	17.4	17.7	7.5	3.7	3.1	3.3	4.9		
	Scottish & Southern	1478.0	1300.0	Hold	18.4	21.5	11.2	10.7	10.5	16.6	15.7	15.6	3.2	3.7	4.0	4.3	7.0		
	Severn Trent	1433.0	1500.0	Buy	4.8	9.7	9.7	9.4	9.1	16.5	17.2	16.3	3.1	4.5	4.6	4.8	5.9		
United Utilities	714.0	710.0	Hold	8.5	14.1	9.3	10.3	9.6	13.1	15.2	13.7	-1.7	6.3	6.5	6.7	2.9			
Sector weighted average							9.3	9.9	9.0	20.8	21.3	18.3	15.2	3.8	3.4	3.9	14.2		
Sector simple average*							8.9	9.6	8.8	16.2	17.4	15.8		4.2	3.9	4.2			

Source: Deutsche Bank

Risks

The main risks to our valuation: Gas and carbon prices are lower in future than we now assume and/or the European carbon-trading scheme breaks down in the future, thereby making conventional coal the new entrant of choice and in turn reducing our long-term power-price forecast. The other key downside risk to our valuation and earnings estimates is the future impact of utility regulation in Germany.

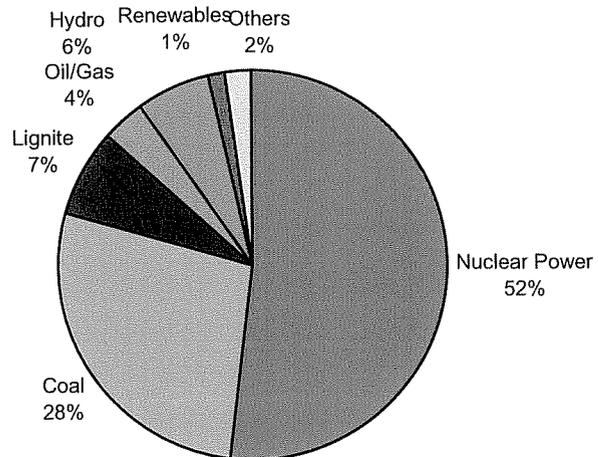
With regard to utility regulation we continue to assume a lifetime extension of nuclear power which is around 9 Euro per share in our SotP valuation. Also a further tightening of grid regulation might negatively impact our SotP.

With its investment in Russia with OGK-4 also country risks have increased and any delay in liberalizing the Russian power market would have a negative impact.

Appendix A

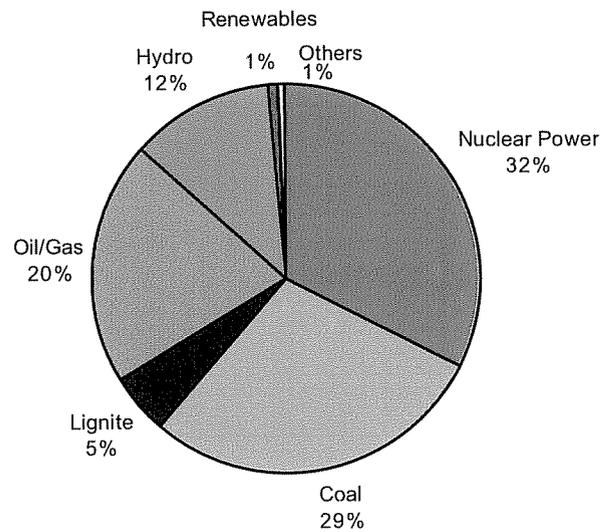
E.ON Generation Split in Germany

Figure 56: Split in German Power Generation 2006 in %



Source Company data

Figure 57: Generation Capacity split in Germany 2006 in %



Source Company data

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
E.ON	EONG.DE	127.67 (EUR) 11 Oct 07	2,6,7,8,14,15,17,SD11

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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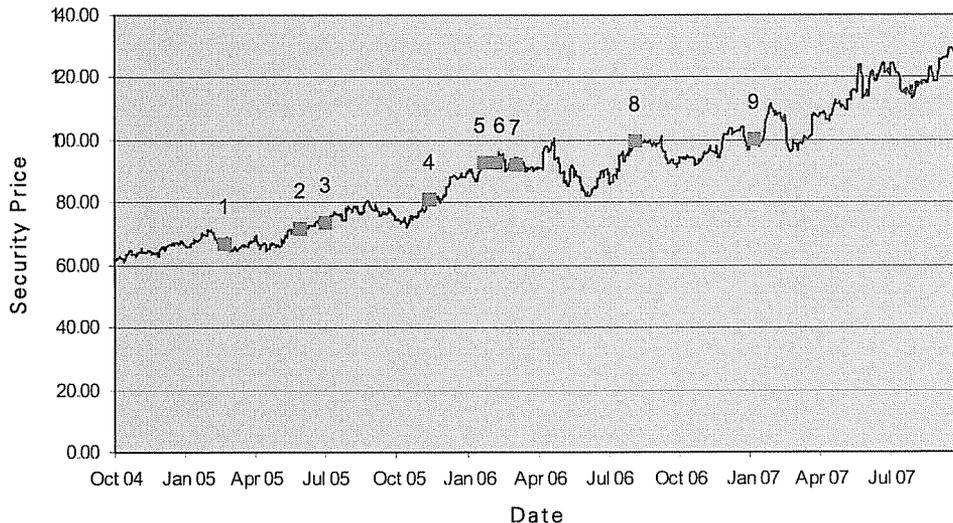
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Historical recommendations and target price: E.ON (EONG.DE)

(as of 11/10/2007)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1	3/3/2005:	Buy, Target Price Change EUR75.50	6	17/2/2006:	Buy, Target Price Change EUR102.00
2	9/6/2005:	Buy, Target Price Change EUR80.00	7	14/3/2006:	Buy, Target Price Change EUR105.00
3	13/7/2005:	Buy, Target Price Change EUR83.50	8	15/8/2006:	Buy, Target Price Change EUR110.00
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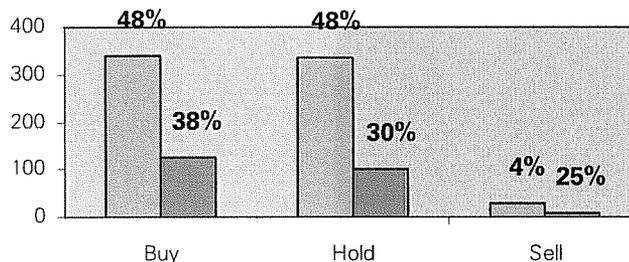
2. Ratings definitions prior to 27 January, 2007 were:

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2008 ANALYST REPORTS

31 January 2008

Utilities

Research analyst(s)
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RWE
Buy €83.2
(Remains Unchanged)
Target Price: €101.0 (112.0)
Reuters Code: RWEG DE
Bloomberg Ticker: RWE GR

Current recommendation since 06/12/2007
Previous recommendation was Hold

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Iberdrola
Add €9.6
(Remains Unchanged)
Target Price: €11.5 (12.0)
Reuters Code: IBE MC
Bloomberg Ticker: IBE SM

Current recommendation since 27/04/2007
Previous recommendation was Hold

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EDF
Add €69.5
(Remains Unchanged)
Target Price: €81.0 (92.0)
Reuters Code: EDF PA
Bloomberg Ticker: EDF FP

Current recommendation since 01/11/2007
Previous recommendation was Hold

For disclosures and statements required by regulatory bodies, please click on this link:
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e on
Add €126.2
(Remains Unchanged)
Target Price: €142.0 (158.0)
Reuters Code: EONG F
Bloomberg Ticker: EOA GR

Current recommendation since 23/03/2007
Previous recommendation was Hold

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Incorporating higher risk premiums (part I: RWE, Iberdrola, EDF, E.ON)

RWE remains our no 1 pick

- Ahead of the companies' final results we have updated our models and incorporated a higher risk premium for all of our utility stocks (5% instead of 4%). The negative impact on fair values for our coverage universe has been partly compensated by interest rates which are on the way down. All in all, this led to 7% lower target prices on average. In terms of our share ranking the new ranking looks pretty much the same compared to our Utilities-Outlook-2008-study. RWE continues to be our no 1 pick as we believe that the company can unlock some of its valuation potential with a revised strategy.
- Higher risk premium included. In general, we have raised our equity premium from 4% to 5% for our utility stocks to incorporate the uncertainties of the current market turmoil. With focus on the metrics of the utilities market we are not concerned about the earnings momentum for the sector as a whole, at least not for the short term. For our coverage universe on average, we expect EPS growth of 13% for 2008 and 11% for 2010. Due the high multiples of the sector investors are probably more open to incorporate some risk stories with discounts into the stocks' valuations.

Utilities: ranking list

	Company	Rating	Closing price		Target price		Upside potential (%)
			30/01/08	OLD	NEW		
1	RWE	Buy	€ 83.2	112.0	101.0	21.4	
2	Iberdrola	Add	€ 9.6	12.0	11.5	20.3	
3	EDF	Add	€ 69.5	92.0	81.0	16.5	
4	E.ON	Add	€ 125.8	158.0	142.0	12.9	
5	Enel	Add	€ 7.3	9.0	8.0	10.3	
6	Fortum	Hold	€ 27.4	32.5	30.0	9.5	
7	Veolia	Hold	€ 55.5	68.5	60.0	8.1	
8	National Grid	Hold	p 789.0	870.0	850.0	7.7	
9	Suez	Hold	€ 40.4	47.0	44.0	8.9	
10	Gaz de France	Hold	€ 35.6	40.5	38.5	8.0	
11	Centrica	Hold	p 320.8	345.0	345.0	7.6	
12	Scottish and Southern	Reduce	p 1522.0	1500.0	1500.0	-1.4	
	Median					9.2	

Source WestLB Research estimates

- Cross check to verify our calculations. For the valuations of the generation assets we have included a scenario analysis being taken from our Utility-Outlook-study. We have incorporated our base case scenario with 50%, the optimistic scenario with 10% and the two bear case scenarios with 40% into our calculation. Our base case scenario assumes that the crude oil price will stay at USD80/bbl this year, hard coal prices including freight at €70/t and CO2-costs at €22/t. (For further details see Utilities Outlook 2008, 8 January 2008). Above all, this scenario analysis would

affect the companies linked to the electricity price story most (EDF, Fortum, RWE). In addition, we have incorporated some premium or discounts for stories which could affect the sentiment (see table below).

Utilities: Cross check (hypothetical calculation)

	Fair value OLD	Bear case scenario	Sentiment issues	Fair value NEW	Premium/ Discount	Remarks
RWE	€ 112.0	-6.3	-5.6	100.1	-5%	CO2-risk, M&A
EDF	€ 102.0	-5.3	-15.3	81.4	-15%	Low visibility of electricity price story; stock overhang
E.ON	€ 158.0	-5.2	-7.9	144.9	-5%	Uncertainties of regulation (gas midstream)
Iberdrola	€ 12.0	-0.2	0.0	11.8	0%	M&A-speculations levelled out by some valuation adjustments (e.g. renewables)
Enel	€ 9.3	-0.3	-0.9	8.1	-10%	Stock overhang; discussion about refinancing Endesa
Fortum	€ 32.5	-1.0	-0.3	31.2	-1%	Adjustment of value of Hafslund participation
Veolia	€ 68.5	0.0	-8.2	60.3	-12%	Assuming that valuation premium vs utility sector will not exceed further
National Grid	p 870.0	0.0	-26.1	843.9	-3%	Reducing premium on RAV for UK business
Suez	€ 47.0	-1.3	-1.9	43.8	-4%	Incorporating only 75% of merger synergies
Gaz de France	€ 40.5	0.0	-2.0	38.5	-5%	Incorporating only 75% of merger synergies
Centrica	p 345.0	-1.0	0.0	344.0	0%	-
Scottish and Southern	p 1,325.0	-23.0	198.0	1,500.0	15%	M&A-premium

Source WestLB Research estimates

- RWE with an update on its strategy by 22 February. RWE should have recorded earnings growth which is above the sector average. We also believe that the company can give further leeway how to optimize its electricity generation portfolio. But one should not expect this strategy to turn around the company within three years. In addition, RWE will probably do its outer most to sell American Water Works in the course of 2008.
- Iberdrola - the takeover speculation is on. While it would be delicate political issue to approach Iberdrola by EDF we believe that some support should come from speculations that other utilities (e.g. E.ON) could be interested to buy further assets in Spain. Here a minority stake in Iberdrola could provide a wild card for exchanging assets for Iberdrola shares. Therefore, the target price includes a premium of 10% vs the fair value based on the .
- EDF still delivers the best electricity price story. But the stock market is probably less attracted to incorporate the full upside of this story into EDF's valuations. Earnings momentum is only slowly getting pace. EDF delivers CAGR EBIT of 7.8% p.a. between 2006 and 2010 which is below the sector average of 11% p.a. according to our calculations. And there is still the issue of stock overhang as the French government aims to offer a second tranche of EDF stocks in H1 2008.
- E.ON in delivery mode. E.ON's performance has been a bit weaker than the sector's performance this year. In our view, this is mainly coupled with profit-taking following the stock's strong performance over the last few months. In our view, we do not believe that E.ON is in the driver's seat in a speculated consolidation in the Spanish utility sector. But we would not rule out that E.ON could be interested to hold a share package in Iberdrola to have the chance to switch shares for assets.

Peter Wirtz

31 January 2008

Equity Research



31 January 2008



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January 03, 2008

**Germany
European Utilities**

E.ON (EONG.DE - EUR 145.61) 1-Overweight

Change of Price Target

Increased growth targets in the offing?

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Investment Conclusion

E.ON has made a strong start to executing its strategic plan, and we would not be surprised to see increased targets set out at the full year results on 6 March. Upgraded earnings which position us above consensus mean that the reasons to own E.ON, such as superior earnings and dividend growth, still exist and the stock looks compelling in the context of a sector which might find the going a little tougher in 2008. We raise our price target to EUR 165 from EUR 140.

FY Dec	2006A	2007E		2008E		2009E	
		Actual	Old	New	Old	New	Old
Currency EUR							
EBITDA	11789	12047	12342	13665	14862	15070	16670
EV/EBITDA	9.5	N/A	9.7	N/A	9.3	N/A	8.4
EPS	6.65	7.68	8.24	8.63	9.40	9.93	10.76
P/E	21.9	19.0	17.7	16.9	15.5	14.7	13.5
DPS	3.35	4.00	4.10	4.65	4.90	5.35	5.70
Dividend Yield (%)	2.7	2.8	3.3	3.3	3.9	3.8	4.6
FCF/Share	5.47	2.48	2.34	3.23	1.38	3.92	2.70
FCF Yield (%)	3.8	2.0	1.6	2.6	0.9	3.2	1.9

Summary

- E.ON has been delivering on its promises set out last May - we look for strategic targets to be raised when the investment plan is communicated in March.
- Dividend CAGR of 18% through to 2010 extremely attractive in a sector context, and supported by double-digit earnings growth.
- Raised target price of EUR 165 suggests a 12 month return of 16%, amongst the best in a sector which could find the going tougher in 2008.
- We reiterate our 1-O/W rating and position E.ON as one of our preferred sector plays.

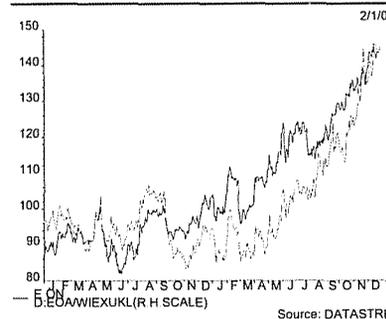
Market Data

Market Cap (m)	97122
Shares Outstanding (m)	667.0
Float (%)	92
Net Div Yield (% %)	2.30
Convertible	Yes
Shares per ADR	3

Financial Summary

Net Debt (m)	7344
Gearing	14
5-year CAGR in EPS (%)	13.5
Payout Ratio (%)	50

Stock Overview



Reuters	EONG.DE
Bloomberg	EOA GR
ADR	EON.N

Performance	1M	3M	12M
Absolute %	3	12	40
Rel. Market %	0	10	17
Rel. Sector %	0	1	10

52 Week Range 145.97 - 95.80

Stock Rating

Target Price

New: 1-Overweight	New: EUR 165.00
Old: 1-Overweight	Old: EUR 140.00

Sector View: 2-Neutral

We expect raised guidance in 2008 -- price target up to EUR 165 & we remain buyers

When we reinstated coverage of E.ON back in July (see *E.ON, Tough targets, tight ship*, dated July 19, 2007) we based our positive stance on a strategic plan that ticked a lot of boxes, although our estimate for 2010E EBIT of EUR 11.3bn was below E.ON's target of EUR 12.4bn, largely due to our inclusion of EUR 43.3bn of capex over 2007-10 as opposed to E.ON's target of EUR 54bn.

E.ON's progress in delivering this plan has been rapid with acquisitions in Russia (OGK-4), Iberia (EnergIE2) and the US (Airtricity), the pending buyout of the E.ON Sverige minorities, and a successful first stage of the share buyback programme. Coupled with strong 9M07 results, the stock has reached our price target and hence we have revisited our analysis. Further details are set out below, but we have raised both our earnings estimates to above consensus, and increased our price target to EUR 165 (from EUR 140).

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In a sector where we believe upside could be limited in 2008 after four years of outperformance, E.ON continues to stand out as an attractive stock, with 16% total return on offer over 12 months, strong eps growth (15.1% CAGR 2006-10E) and dividend growth (18% CAGR 2006-10E) all in the upper quartile of what we see on offer in the utilities space. We reiterate our 1-O/W rating with E.ON one of preferred picks.

- We now factor in investment of EUR 52.5bn over the period 2007-10 with our 2010E EBIT estimate of EUR 13.2bn being above E.ON's target, and we expect that E.ON will raise its guidance when it reports its FY 2007 results and outlines its investment plan on 6 March.
- This supports higher earnings estimates which we have raised by 9% in 2008E and 8.3% in 2009E, positioning us above consensus in both years. Our eps CAGR over 2006-10E rises to 15.1%, up from 12%.
- Our dividend estimates reflect our higher earnings estimates, and we have increased these by 5.4% in 2008E and 6.5% in 2009E, again positioning us above consensus in both years. Our dps CAGR over 2006-10E rises to 18.0%, up from 16.2%, firmly in the upper quartile of the sector.
- E.ON is half-way through its EUR 7bn share buyback programme and we expect the remainder to be executed in 2008. We continue to believe that this will provide support to the stock, as we expect E.ON to exploit any weakness.
- Our long-term power price assumption of EUR 60/MWh could well prove to be conservative if commodity prices remain high, and although not as leveraged into power prices as RWE when Germany only is considered, taking into account its Nordic and UK portfolios, we estimate that each additional EUR 1/MWh on the power price would add EUR 2/share to our price target. E.ON is also Germany's largest nuclear producer, and should a decision be taken post the 2009 election to revise the nuclear consensus and revert to a 40-year operating life, EUR 10.7/share would be added to our valuation.

Higher earnings estimates – we are now above consensus

Our updated assumptions discussed in more depth below have resulted in higher earnings forecasts for the next three years and beyond, as shown in the summary table. The change is material in 2008E and 2009E, where higher power prices both in Germany and the UK, an improved outlook at RWE Energy, and a lower effective tax rate all combine to boost earnings. We also expect that the direction of consensus estimates will be upwards. Our estimates point to a 14.9% CAGR in earnings over a five-year period, although dividend growth is expected to be lower given the 80% payout ratio in 2006.

Figure 1: E.ON – earnings revisions (EUR m)

	2007E	2008E	2009E
EBITDA - old	12,047	13,665	15,070
EBITDA - new	12,342	14,862	16,670
Change	2.5%	8.8%	10.6%
Consensus	12,118	13,665	14,858
Difference	1.9%	8.8%	12.2%
Operating profit - old	8,615	9,693	10,835
Operating profit - new	9,088	10,902	12,284
Change	5.5%	12.5%	13.4%
Consensus	8,935	10,155	11,060
Difference	1.7%	7.4%	11.1%
EPS - old	7.68	8.63	9.93
EPS - new	8.24	9.40	10.76
Change	7.3%	9.0%	8.3%
Consensus	7.94	9.01	9.98
Difference	3.8%	4.4%	7.8%
DPS - old	4.00	4.65	5.35
DPS - new	4.10	4.90	5.70
Change	2.5%	5.4%	6.5%
Consensus	4.00	4.67	5.30
Difference	2.4%	5.0%	7.6%

Source: Company data, Lehman Brothers estimates, Reuters

- In 2007E, we have increased our EBIT estimates for Central Europe (year-to-date performance, higher power prices), Pan-European Gas (year-to-date performance/IFRS changes) and Nordic (higher hydro output/hedging activities), and decreased them for the UK (adverse market conditions in 4Q07) and the US (adverse currency movements).
- In 2008E, our operating profit estimate has jumped by over 12%, positioning us well ahead of consensus. Part of this change is due to the incorporation of OGK-4, Airtricity & EnergieE2, but this only accounts for 2%. The biggest jump comes in the Central

European business (+ EUR 1,276m) benefits from an increase in our estimate of the achieved power price (up to EUR 53.3/MWh from EUR 48.2/MWh) and a better free allocation of CO₂ (50-55%) than we had expected. The increase in the Pan-European Gas business (+ EUR 179m) is largely due to IFRS, the fall in the UK (- EUR 480m) factors in our view of a tougher retail environment next year, the increase in Nordic (+ EUR 102m) is a follow on from a higher contribution in 2007, while the fall in the US (- EUR 28m) is currency related.

- The trend is similar in 2009E with an increase over 13%, although excluding the contribution OGK-4, Airtricity & EnergiE2, the increase would be a little short of 10%. As above the principal contributor to the increase is the Central European business where our power price assumption has been raised to EUR 56.6/MWh from EUR 52.4/MWh and better than expected allocation of CO₂.
- The higher operating profit flows through to the bottom line, although higher minorities partially erodes, with our estimates increasing by 9% and 8.3% for 2008E and 2009E respectively, positioning us 4-8% ahead of consensus. In turn, this drives an increase in our dividend forecasts of 5.4% for 2008E and 6.5% for 2009E, respectively 5% and 7.6% above consensus.

Valuation increased to EUR 164.5 per share, price target up to EUR 165

Our revised assumptions and changes to earnings estimates have a knock-on impact for our valuation of E.ON's which we continue to value using a SOTP approach, capturing the drivers of each component of E.ON's diverse business mix.

Comparing our new valuation of EUR 164.5 to our previous valuation of EUR 140.2 is not that simple, as we have taken the opportunity to tweak our approach to a number of issues, including rolling forward our valuation to end 2008, and including the acquisitions of OGK-4, Energi E2 and Airtricity's US assets, but the following are worth noting:

- We have factored in a higher long-term power price of EUR 60/MWh (up from EUR 55/MWh) for E.ON's Central European power generation business, but have also re-examined load factors technologies, capex costs, assumed a zero CO₂ allocation post 2012, and cut our WACC to 6.5% (from 7%) given assumptions of increased leverage. All told the valuation of E.ON's Central European generation rises by EUR 1.0/share, while rolling forward our valuation of Central Europe East adds EUR 1.5/share.
- Increased estimates for the Pan European gas business (EBIT 08E up 8%, EBIT 09E up 10%) and the aforementioned lower WACC adds EUR 11.8/share. Our revised valuation is equivalent 9.8x EV/EBITDA.
- Our valuation of E.ON's Nordic activities have increased by EUR 8.0/share largely due to a re-examination of load factors, capital costs, and the aforementioned lower WACC.
- We have incorporated valuations of E.ON's recent acquisitions. We value OGK-4 at EUR 5.4bn, slightly below the EUR 6bn EV suggested by E.ON's acquisition cost. We value the renewables business (Energi E2/Airtricity) at EUR 3bn, fractionally ahead of the acquisition cost and accumulated capex to year-end 2008.
- Our valuations of the UK and US activities are virtually unchanged.
- The value of the Gazprom stake has fallen by EUR 3.0/share due to the fall in Gazprom's market value and adverse currency movements.

The increased valuation supports an increase in our price target to EUR 165/share (from EUR 140/share).

Figure 2: E.ON – sum-of-the-parts valuation (EUR m)

SEGMENT	EUR (M)	EUR/sh	% EV	COMMENT
CENTRAL EUROPE	50,161	82.5	33.0%	
Generation - Central Europe	23,378	38.4	15.4%	Implied value of EUR 731/KW based on plant by plant DCF
German electricity networks	16,752	27.5	11.0%	Benchmarked to other countries/companies
German gas network	4,624	7.6	3.0%	Benchmarked to other countries/companies
Central Europe East	5,407	8.9	3.6%	8.5x EV/EBITDA 08E
PAN EUROPEAN GAS	29,666	48.8	19.5%	
Pan European Gas	29,666	48.8	19.5%	DCF equivalent to 9.8x EV/EBITDA 08E
UK	12,712	20.9	8.4%	
Generation	5,289	8.7	3.5%	Implied value of EUR 396/KW based on plant by plant DCF
Distribution	4,113	6.8	2.7%	17.3% Implied premium to RAV 08E
Retail	3,309	5.4	2.2%	GBP 302 per customer
SOUTHERN EUROPE	11,281	18.5	7.4%	
Endesa Europa	6,954	11.4	4.6%	LB valuation
Enel Viesgo	2,761	4.5	1.8%	LB valuation
Endesa assets	1,565	2.6	1.0%	LB valuation
RENEWABLES	2,984	4.9	2.0%	
ENERGI E2	729	1.2	0.5%	LB valuation using DCF (2008E)
Airtricity	2,255	3.7	1.5%	LB valuation using DCF (2008E)
RUSSIA	5,440	8.9	3.6%	
OGK-4	5,440	8.9	3.6%	LB valuation using DCF (2008E)
NORDIC	13,375	22.0	8.8%	
Generation	9,978	16.4	6.6%	Implied value of EUR 1162/KW based on plant by plant DCF
Regulated	3,398	5.6	2.2%	8.5x EV/EBITDA 08E
US -MIDWEST	4,811	7.9	3.2%	
INVESTMENTS IN ASSOCIATES+OTHEF	21,774	35.8	14.3%	8.0x EV/EBITDA 08E, equivalent to US peers
Gazprom	11,237	18.5	7.4%	Market value
Other	10,537	17.3	6.9%	2007E BV (excluding Gazprom)
ENTERPRISE VALUE	152,203	250.2	100.0%	
LIABILITIES	(52,118)	-85.7		
Net Financial Debt	(25,323)	-41.6		2008E BV
Nuclear provisions	(10,689)	-17.6		80% of 2008E BV
Pension provisions	(3,885)	-6.4		2008E BV
Other liabilities	(7,519)	-12.4		50% of 2008E BV
Minority Interest	(4,702)	-7.7		2008E BV
EQUITY VALUE	100,085	164.5		
Year end no of shares	608.3			2008 year-end shares
EQUITY VALUE PER SHARE	164.5			

Source: Company data, Lehman Brothers estimates

Figure 3: E.ON – Operating forecasts, 2005-11E (EUR m)

Year-end December	UNIT	2005A	2006A	2007E	2008E	2009E	2010E	2011E
SALES								
Central Europe	[€m]	24,295	28,380	29,982	32,655	34,270	35,362	36,791
Endesa	[€m]				4,577	6,379	6,685	6,646
Pan-European Gas	[€m]	17,914	24,987	25,387	26,563	29,286	31,201	33,149
UK	[€m]	10,176	12,569	9,509	10,423	10,500	10,577	10,620
Nordic	[€m]	3,213	3,204	3,668	3,752	3,812	3,876	3,942
Russia	[€m]				997	1,396	1,894	2,278
Renewables	[€m]				211	288	367	439
US-Midwest	[€m]	2,045	1,947	1,850	1,887	1,924	1,982	2,042
Corporate Centre	[€m]	(1,502)	(3,328)	(3,296)	(3,795)	(4,113)	(4,304)	(4,490)
CORE ENERGY	[€m]	56,141	67,759	67,100	77,270	83,742	87,640	91,417
Discontinued and other activities	[€m]	0	0					
GROUP TOTAL	[€m]	56,141	67,759	67,100	77,270	83,742	87,640	91,417
EBITDA								
Central Europe	[€m]	5,284	5,484	5,992	6,688	7,513	7,940	8,365
Endesa	[€m]				1,212	1,673	1,753	1,801
Pan-European Gas	[€m]	1,939	2,839	2,778	3,018	3,138	3,237	3,289
UK	[€m]	1,550	1,790	1,738	1,644	1,689	1,720	1,719
Nordic	[€m]	1,115	991	1,210	1,276	1,296	1,318	1,340
Russia	[€m]				179	399	717	858
Renewables	[€m]				163	223	286	341
US-Midwest	[€m]	365	391	370	377	385	436	449
Corporate Centre	[€m]	(59)	241	253	303	353	403	403
CORE ENERGY	[€m]	10,194	11,736	12,342	14,862	16,670	17,810	18,566
Discontinued and other activities	[€m]	132	53	0	0	0	0	0
GROUP TOTAL	[€m]	10,326	11,789	12,342	14,862	16,670	17,810	18,566
EBIT								
Central Europe	[€m]	3,930	4,168	4,697	5,343	6,125	6,505	6,918
Endesa	[€m]				820	1,099	1,151	1,194
Pan-European Gas	[€m]	1,536	2,106	2,244	2,462	2,547	2,608	2,622
UK	[€m]	963	1,229	1,158	1,046	1,066	1,074	1,052
Nordic	[€m]	766	619	849	887	872	860	873
Russia	[€m]				136	307	605	750
Renewables	[€m]				54	86	124	154
US-Midwest	[€m]	365	391	370	377	385	436	449
Corporate Centre	[€m]	(399)	(210)	(230)	(224)	(202)	(166)	(174)
CORE ENERGY	[€m]	7,161	8,303	9,088	10,902	12,284	13,197	13,838
Discontinued and other activities	[€m]	132	53					
GROUP TOTAL	[€m]	7,293	8,356	9,088	10,902	12,284	13,197	13,838
EBIT margin	[%]	13.0%	12.3%	13.5%	14.1%	14.7%	15.1%	15.1%

Source: Company data (2005-06A), Lehman Brothers estimates (2007E-11E)

Figure 4: E.ON – Profit & loss, 2005-11E (EUR m)

Year-end 31 December	[UNIT]	2005A	2006A	2007E	2008E	2009E	2010E	2011E
SALES								
Core	[€m]	56,141	67,759	67,100	77,270	83,742	87,640	91,417
Total group Sales	[€m]	56,141	67,759	67,100	77,270	83,742	87,640	91,417
Total group EBITDA	[€m]	10,326	11,789	12,342	14,862	16,670	17,810	18,566
EBITDA margin	[%]	18.4%	17.4%	18.4%	19.2%	19.9%	20.3%	20.3%
Total group EBIT	[€m]	7,293	8,356	9,088	10,902	12,284	13,197	13,838
Interest charge	[€m]	(1,027)	(948)	(1,032)	(1,919)	(2,224)	(2,265)	(2,079)
Net book gains	[€m]	491	829	1,320	0	0	0	0
Restructuring expenses	[€m]	(29)	0	0	0	0	0	0
Other non-operating expenses	[€m]	440	(2,890)	36	0	0	0	0
PBT	[€m]	7,168	5,347	9,412	8,982	10,060	10,932	11,758
Income tax	[€m]	(2,276)	(40)	(2,353)	(2,470)	(2,767)	(3,006)	(3,234)
PAT	[€m]	4,892	5,307	7,059	6,512	7,294	7,926	8,525
Minority interests	[€m]	(536)	(496)	(620)	(682)	(750)	(825)	(908)
Income/(loss) from discontinued	[€m]	3,059	775	(94)	0	0	0	0
Net income (reported)	[€m]	7,407	5,586	6,345	5,830	6,543	7,101	7,617
Recurring net income (LB definition)	[€m]	3,640	4,682	5,380	5,830	6,543	7,101	7,617
PER SHARE DATA								
Reported EPS - basic								
EPS - E.ON only	[€/sh]	€ 11.24	€ 8.48	€ 9.72	€ 9.05	€ 10.24	€ 11.17	€ 11.91
EPS - E.ON with Endesa	[€/sh]	€ 11.24	€ 8.48	€ 9.72	€ 9.40	€ 10.76	€ 11.67	€ 12.52
Earnings accretion	[€/sh]				€ 0.35	€ 0.51	€ 0.50	€ 0.61
Earnings accretion	[%]				3.9%	5.0%	4.5%	5.1%
Adjusted EPS - LB definition								
EPS - E.ON only	[€/sh]	€ 5.52	€ 6.65	€ 8.24	€ 9.05	€ 10.24	€ 11.17	€ 11.91
EPS - E.ON with Endesa	[€/sh]	€ 5.52	€ 6.65	€ 8.24	€ 9.40	€ 10.76	€ 11.67	€ 12.52
Earnings accretion	[€/sh]				€ 0.35	€ 0.51	€ 0.50	€ 0.61
Earnings accretion	[%]				3.9%	5.0%	4.5%	5.1%
DPS								
E.ON with Endesa	[€/sh]	€ 7.00	€ 3.35	€ 4.10	€ 4.90	€ 5.70	€ 6.50	€ 7.30
Payout ratio	[%]			49.7%	52.1%	53.0%	55.7%	58.3%

Source: Company data (2005-06A), Lehman Brothers estimates (2007E-11E)

Figure 5: E.ON – Balance sheet, 2005-11E (EUR m)

Year-end December, EURm	[UNIT]	2005A	2006A	2007E	2008E	2009E	2010E	2011E
ASSETS								
Intangible assets	[€m]	19,488	18,873	18,873	18,873	18,873	18,873	18,873
Tangible assets	[€m]	41,323	42,712	49,930	68,127	73,665	78,308	79,511
Financial assets	[€m]	33,103	34,759	34,759	34,759	34,759	34,759	34,759
Fixed assets	[€m]	93,914	96,344	103,562	121,759	127,297	131,940	133,143
Inventories	[€m]	2,457	3,990	4,044	4,657	5,047	5,282	5,510
Accounts receivable	[€m]	18,180	18,337	18,384	21,170	22,943	24,011	25,046
Other receivables & assets	[€m]	1,060	1,760	1,760	1,760	1,760	1,760	1,760
Businesses held for sale	[€m]	681	610	610	610	610	610	610
Liquid funds	[€m]	9,897	6,187	6,187	6,187	6,187	6,187	6,187
Non-fixed assets	[€m]	32,275	30,884	30,985	34,384	36,547	37,850	39,113
Deferred tax	[€m]	373	347	347	347	347	347	347
Total assets	[€m]	126,562	127,575	134,894	156,490	164,192	170,137	172,602
LIABILITIES & SHE								
Stockholders equity								
Minority interests	[€m]	4,734	3,400	4,020	4,702	5,452	6,277	7,185
Pension provisions	[€m]	8,720	3,885	3,885	3,885	3,885	3,885	3,885
Nuclear provisions	[€m]	12,950	13,170	13,263	13,361	13,460	13,558	13,645
Other provisions	[€m]	12,192	15,038	15,038	15,038	15,038	15,038	15,038
Liabilities of disposed groups	[€m]	831	615	615	615	615	615	615
Deferred taxes	[€m]	8,420	7,913	7,913	8,073	8,233	8,393	8,553
Deferred income	[€m]	817	0	0	0	0	0	0
Total liabilities	[€m]	82,078	79,730	86,414	108,268	112,406	114,719	113,522
Total liabilities and shareholders equity	[€m]	126,562	127,575	134,894	156,490	164,192	170,137	172,602

Source: Company data (2005-06A), Lehman Brothers estimates (2007E-11E)

Figure 6: E.ON – Cash flow, 2005-11E (EUR m)

Year-end December, EURm	[UNIT]	2005A	2006A	2007E	2008E	2009E	2010E	2011E
Net income	[€m]	7,407	5,586	6,345	5,830	6,543	7,101	7,617
Depreciation, amortisation and impairment	[€m]	3,030	3,751	3,254	3,960	4,386	4,614	4,728
Working capital	[€m]	(4,225)	(2,053)	(1,335)	(465)	(375)	(245)	(104)
Other	[€m]	332	409	713	940	1,009	1,084	1,155
Cash flow from operating activities	[€m]	6,544	7,693	8,977	10,266	11,564	12,553	13,396
Disposals	[€m]	6,294	3,954	550	0	0	0	0
Acquisitions	[€m]	(985)	(1,078)	(3,522)	(12,729)	0	0	0
Capex	[€m]	(2,956)	(4,083)	(7,500)	(9,428)	(9,924)	(9,256)	(5,931)
Other	[€m]	(1,911)	(3,294)	0	0	0	0	0
Total investing cash flows	[€m]	442	(4,501)	(10,472)	(22,157)	(9,924)	(9,256)	(5,931)
Total pre-financing cash flows	[€m]	6,986	3,192	(1,495)	(11,891)	1,639	3,297	7,465
Financing cash flows	[€m]	(6,458)	(5,849)	(5,710)	(6,088)	(2,980)	(3,468)	(3,955)
Increase/(decrease) in cash	[€m]	528	(2,657)	(7,205)	(17,979)	(1,341)	(171)	3,510
Net financial position (net debt year-end)	[€m]	1,917	(137)	(7,344)	(25,323)	(26,664)	(26,835)	(23,325)
Net Debt/EBITDA	[x]	-0.2x	0.0x	0.6x	1.7x	1.6x	1.5x	1.3x
Gearing (Debt/Debt+Equity)	[%]	-4.1%	0.3%	12.3%	32.4%	31.8%	30.3%	26.0%
Economic debt	[€m]	(17,230)	(18,231)	(26,070)	(44,791)	(46,911)	(47,900)	(45,249)

Source: Company data (2005-06A), Lehman Brothers estimates (2007E-11E)

Analyst Certification:

I, Martin Young, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

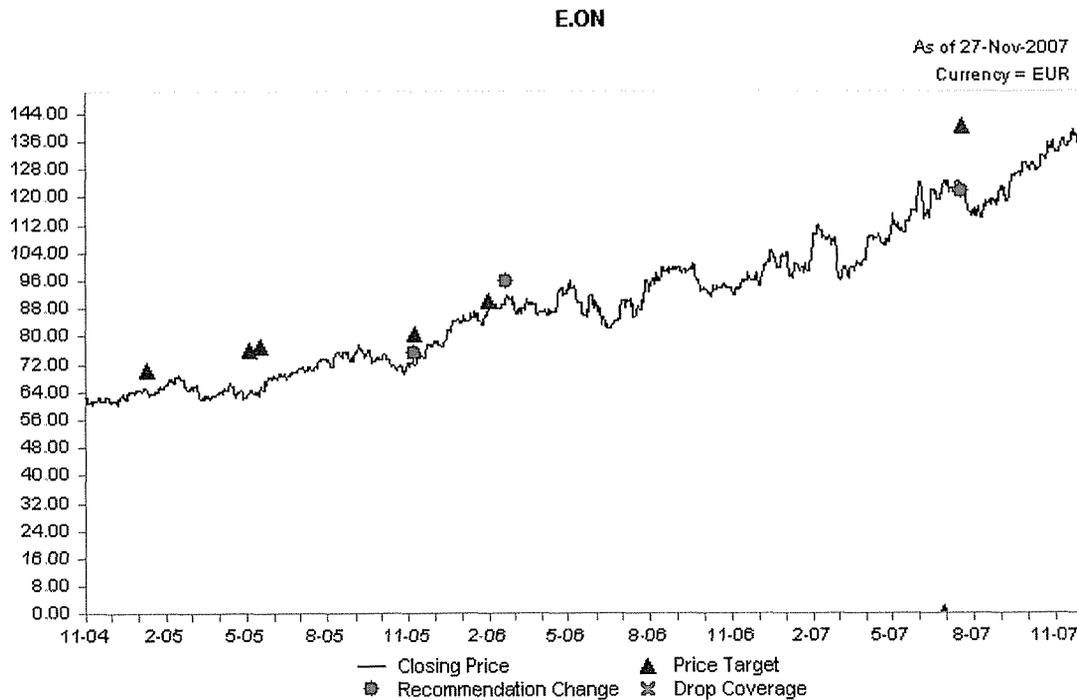
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Company Description:

E.ON is Europe's second largest utility by market capitalisation with interests across the electricity and gas value chain. Since the merger of VEBA and VIAG in 2000, E.ON has successfully disposed of its interests in oil, real estate, logistics, telecoms, chemicals and has met the ministerial conditions requisite for the completion of the Ruhrgas acquisition. In addition, the group has acquired Powergen (UK), Sydkraft and Gräninge (both Sweden) as well as various other interests in Eastern Europe and the Nordic region. As a result of the successful acquisition of Ruhrgas, E.ON has a 6.4% stake in Gazprom.

Important Disclosures:

E.ON (EONG.DE)
EUR 145.61 (28-Dec-2007)
1-Overweight / 2-Neutral
Rating and Price Target Chart:

Currency=EUR

Date	Closing Price	Rating	Price Target
20-Jul-07	121.30		140.00
20-Jul-07	121.30	1 -Overweight	
29-Jun-07	124.29		0.00
21-Feb-06	95.63	RS -Rating Suspended	
31-Jan-06	91.93		90.00

Date	Closing Price	Rating	Price Target
08-Nov-05	75.00		81.00
08-Nov-05	75.00	2 -Equal weight	
18-May-05	67.63		77.00
06-May-05	67.06		76.00
10-Jan-05	67.36		70.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

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Valuation Methodology: Our approach to valuing E.ON is to use a variety of valuation techniques, including a sum-of-the-parts approach. E.ON's SOTP approach captures the drivers of each component of E.ON's diverse business mix. The valuation of German generation is based on DCF with a 6.5% discount rate and nuclear liabilities, where we adjust (80% BV) for what we consider to be an overly aggressive discount rate. The UK business is valued using a DCF for generation and an evaluation of the outperformance against targets for the allowed revenue. Gas is also valued using a DCF with a 6.5% discount rate, while we apply multiples to the Nordic and US businesses. We view E.ON as one of the more attractive opportunities within the sector and our rating remains 1-O/W.

Risks Which May Impede the Achievement of the Price Target: Our target price is based on a sum-of-the-parts valuation. Risks to this valuation include, but are not limited to, fluctuations in electricity, oil, coal, and carbon prices as well as changes in the regulatory environment.

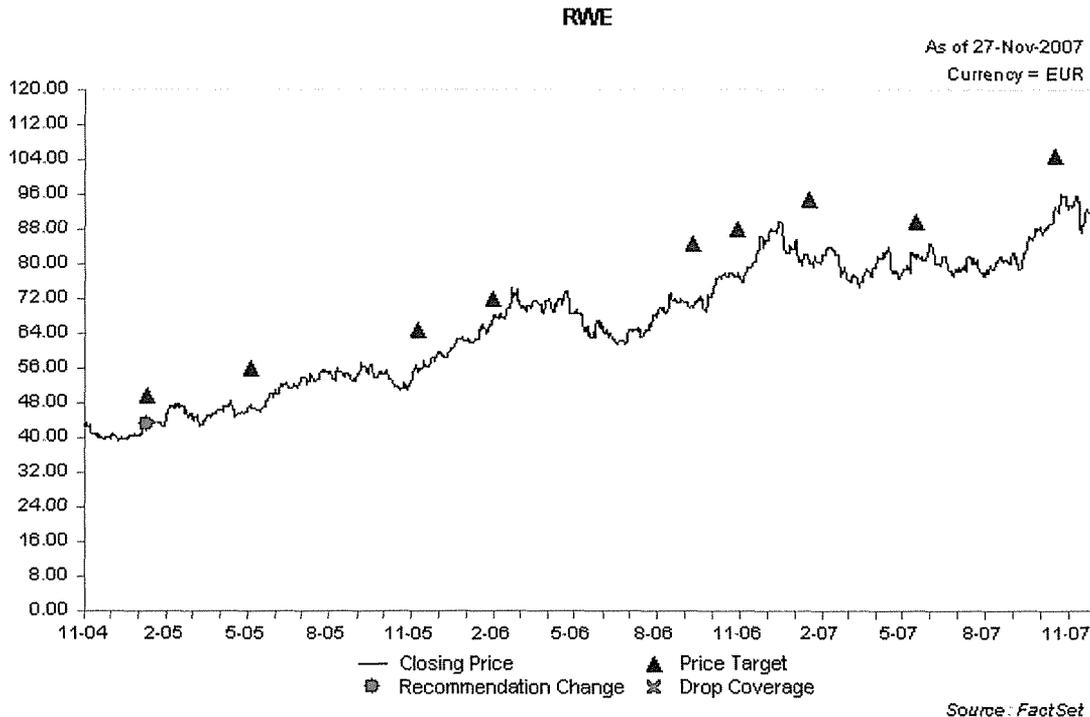
Important Disclosures Continued:

RWE (RWE.G.DE)

EUR 96.45 (28-Dec-2007)

1-Overweight / 2-Neutral

Rating and Price Target Chart:



Currency=EUR

Date	Closing Price	Rating	Price Target
17-Oct-07	93.01		105.00
16-May-07	81.49		90.00
17-Jan-07	80.48		95.00
30-Oct-06	78.06		88.00
11-Sep-06	70.27		85.00

Date	Closing Price	Rating	Price Target
31-Jan-06	67.82		72.00
08-Nov-05	56.00		65.00
05-May-05	47.62		56.00
10-Jan-05	43.30		50.00
10-Jan-05	43.30	1-Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

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Risks Which May Impede the Achievement of the Price Target: Our target price is based on a sum-of-the-parts valuation. Risks to this valuation include, but are not limited to, fluctuations in electricity, oil, coal and carbon prices as well as changes in the regulatory environment.

Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (28-Dec-2007)	Stock / Sector Rating
E.ON	EONG.DE	EUR 145.61	1-Overweight / 2-Neutral
Related Stocks	Ticker	Price (28-Dec-2007)	Stock / Sector Rating
RWE	RWEG.DE	EUR 96.45	1-Overweight / 2-Neutral

Guide to Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

Abertis (ABE.MC)	ACEA (ACE.MI)
AEM (AEMI.MI)	Aeroports de Paris (ADP.PA)
ASM Brescia (AMBR.MI)	Atlantia (ATL.MI)
Autostrada Torino Milano (ATMI.MI)	Biffa (BIFF.L)
British Energy (BGY.L)	Centrica (CNA.L)
Cintra (CCIT.MC)	Drax Group (DRX.L)
E.ON (EONG.DE)	Edison (EDN.MI)
EDP (EDP.LS)	Electricité de France (EDF.PA)
Enagás (ENAG.MC)	Endesa (ELE.MC)
Enel (ENEI.MI)	Flughafen Wien (VIEV.VI)
Fortum (FUM1V.HE)	Fraport (FRAG.DE)
Gas Natural (GAS.MC)	Gaz de France (GAZ.PA)
Groupe Eurotunnel (GET.PA)	Iberdrola (IBE.MC)
International Power (IPR.L)	Kelda Group (KEL.L)
National Grid (NG.L)	Northumbrian Water Group PLC (NWG.L)
Pennon Group (PNN.L)	Red Eléctrica de España (REE.MC)
RWE (RWEG.DE)	Scottish & Southern Energy (SSE.L)
Severn Trent (SVT.L)	SIAS (SIS.MI)
SNAM Rete Gas (SRG.MI)	Suez (LYOE.PA)
Terna (TRN.MI)	Unión Fenosa (UNF.MC)
United Utilities (UU.L)	Veolia Environnement (VIE.PA)
Vinci S. A. (SGEF.PA)	

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as *buy*, *hold* and *sell* is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:

Lehman Brothers Equity Research has 2162 companies under coverage.

39% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as Buy rating, 30% of companies with this rating are investment banking clients of the Firm.

46% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 34% of companies with this rating are investment banking clients of the Firm.

12% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as Sell rating, 22% of companies with this rating are investment banking clients of the Firm.

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Reuters EONG.DE / Bloomberg EOA.GY Index: FTSE Euro First 300

E.ON

Rating Buy	Previous Buy
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8 January 2008

GERMANY

UTILITIES

Hard as a rock

E.ON is one of the most solid group's in the industry, combining a relatively young and diversified asset base with a broad geographical presence in Europe. The EUR145 target we set with *Power age* (16 July 2007) is reached (+40% in 2007). Sticking with our *Power age* philosophy, but speeding it up, yields EUR170.

Target Price EUR170.00	Current Price EUR150.97
Market Cap EUR101.7bn	Free Float 100%

Year End	Sales (EURm)	EBIT (EURm)	EBIT Margin (%)	Net Profit (EURm)	EPS (EUR)	P/E	P/CF	EV/Sales	EV/EBITDA	EV/EBIT	Div. Yield (%)
2006	65,759	7,193	10.9	5,057	7.67	14.1	9.0	0.96	6.1	8.8	3.6
2007E	65,462	7,783	11.9	5,920	9.24	16.2	8.9	1.19	7.2	10.0	3.2
2008E	67,763	8,052	11.9	5,220	8.14	19.5	11.1	1.44	8.8	12.1	2.6
2009E	70,257	8,743	12.4	5,702	8.90	17.8	10.5	1.35	8.0	10.8	3.5
2010E	73,391	9,613	13.1	6,311	9.85	16.1	9.8	1.26	7.2	9.6	3.9

Source: Landsbanki Kepler

YTD Abs. Perf.	1.6%
Shares Outstanding (m)	641.0
Daily Trade Vol. (sh 000)	3,337
52 Week High/Low	EUR 147.85/EUR 96.05
Enterprise Value (EURm)	77,659
Net Debt (EURm)	5,099

2007 rock

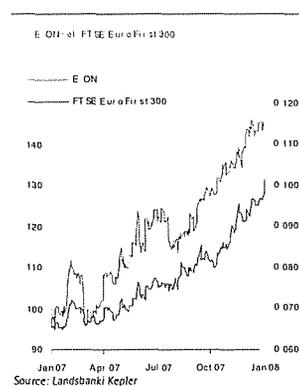
E.ON returned more than 40% in 2007 – leaving RWE behind for the first time in years, as we had projected (both stocks have almost precisely met the targets we had set for the year). And the reason for it lies in E.ON's asset base, as market fundamentals are the same for both. While RWE has a far greater price exposure than E.ON, it also has a greater cost exposure (fuel, CO2, replacement) due to a dirtier and older asset base. While early in the cycle the price effects prevails (having favoured RWE over 2003-06), the cost effects become heavier later in the cycle. CO2 politics (free allocations) fall and the mere passing of time increases the NPV of future replacement costs – the other side of the currency coin. And these are significantly more near-term with RWE than with E.ON.

2008 rock

We stick with our *Power age* philosophy (EUR70/MWh long-run achievable prices in baseload in Europe; see *Power age*, 16 July 2007), but feel comfortable in speeding up the point at which it realised in company ARPU's (from 2011 vs. 2015 before for Central European generators).

EUR170 rock

For E.ON that means a new target of EUR170, having taken lower grid fees (another cut of -10% in distribution, and -8% in transmission from 2008 assumed by us), lower CO2 allocations and higher windfall taxes in the Nordic region into account.



This report is subject to important disclosures and disclaimers which can be found at the end of this report and which form an integral part of it

Landsbanki Research Group: Landsbanki Kepler: Continental Europe Landsbanki: Iceland and Scandinavia Merrion Landsbanki: Ireland Landsbanki Securities: UK

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Key financials

Company Profile

One of Europe's largest utilities No 2 in Central Europe (ex France) No 2 in the UK and No 4 in the Nordic market Integrated power/gas focus Target markets also include Eastern Europe and, selectively so, Russia Strongest financial muscle in the sector

Top Shareholders	Events Calendar	
Free float	100.0%	FY 06 Mar 08
		Dividend 02 May 08
		I 14 May 08
		II 13 Aug 08
		III 12 Nov 08

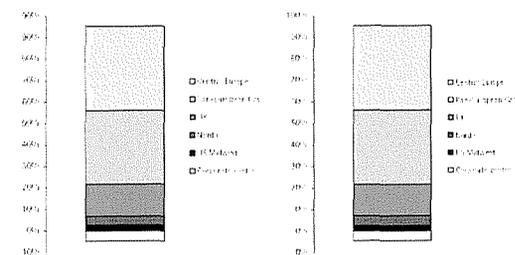
Income Statement (EURm), Dec. 31	2006	2007E	2008E	2009E
Sales	65,759	65,462	67,763	70,257
Operating income and expenses	-55,363	-54,627	-56,613	-59,369
EBITDA adjusted	10,396	10,835	11,150	11,888
Depreciation & amortisation	-3,203	-3,052	-3,098	-3,144
EBIT adjusted	7,193	7,783	8,052	8,743
Associates	957	1,031	1,047	1,062
EBIT declared	8,150	8,814	9,099	9,806
Net financial income	-1,081	-925	-925	-925
Non-operating income	-1,936	1,026	0	0
PBT	5,133	8,915	8,174	8,880
Income taxes	323	-2,195	-2,138	-2,345
Tax rate (%)	-6.3%	24.6%	26.2%	26.4%
Minorities	526	800	816	832
Discontinued operations	127	0	0	0
Reported net earnings	5,057	5,920	5,220	5,702
Adjustments	-470	-1,026	0	0
Adj net earnings (group)	4,587	4,894	5,220	5,702

Cash-Flow Statement (EURm)	2006	2007E	2008E	2009E
Adj net earnings	4,587	4,894	5,220	5,702
D&A	3,203	3,052	3,098	3,144
Change in WC	0	0	0	0
Other adjustments	-596	984	816	832
Operating cash flow	7,194	8,930	9,133	9,679
Capex	-4,083	-3,052	-3,051	-3,144
Free cash flow	3,111	5,878	5,482	6,535
Disposals	3,954	745	0	0
Financial investments	-1,078	-651	0	0
Dividends	-4,856	-2,456	-2,656	-2,821
Share buy-backs	0	0	0	0
Equity issued	0	0	0	0
Others	-6,937	-8,615	-5,099	-2,273
Net debt change	5,806	5,099	2,273	-1,441

Ratios	2006	2007E	2008E	2009E
Sales growth (%)	17.1%	-0.5%	3.5%	3.7%
EBITDA growth (%)	11.6%	4.2%	2.9%	6.6%
EBIT growth (%)	12.2%	8.2%	3.5%	8.6%
Adj net earnings growth (%)	14.5%	6.7%	6.6%	9.3%
EBITDA margin (%)	15.8%	16.6%	16.5%	16.9%
EBIT margin (%)	10.9%	11.9%	11.9%	12.4%
Adj net earnings margin (%)	7.0%	7.5%	7.7%	8.1%
Net debt / equity (%)	11.3%	9.2%	3.9%	-2.3%
Total net debt / equity (%)	53.0%	45.1%	38.3%	30.6%
ROE (%)	9.4%	9.3%	9.4%	9.8%
ROCE (%)	11.2%	11.6%	11.8%	12.7%
Equity / total assets (%)	40.2%	43.3%	45.6%	48.1%
Net WC / sales (%)	13.2%	13.4%	13.4%	13.4%
Operating CF / sales (%)	10.9%	13.6%	13.5%	13.8%
Capex / sales (%)	6.2%	4.7%	5.4%	4.5%
FCF / sales (%)	4.7%	9.0%	8.1%	9.3%
Capex / D&A (%)	127.5%	100.0%	117.9%	100.0%
Dividend pay out (%)	50.5%	51.6%	51.6%	63.0%

Source: Landsbanki | Kepler

Sales Split - Geographical and Divisional



Balance Sheet (EURm), Dec. 31	2006	2007E	2008E	2009E
Cash and equivalents	6,189	8,731	8,731	8,731
Account receivables	9,756	9,712	10,053	10,423
Other current assets	15,142	12,936	12,481	12,889
Current assets	31,087	31,379	31,266	32,043
Goodwill	15,320	15,008	15,008	15,008
Other intangible assets	3,894	3,990	3,990	3,990
Property, plant & equipment	42,484	43,838	44,392	44,392
Financial assets	31,080	29,603	29,603	29,603
Other fixed assets	3,710	3,924	3,924	3,924
Fixed assets	96,488	96,363	96,917	96,917
Short-term debt	3,443	6,763	6,763	6,763
Accounts payable	5,305	5,281	5,467	5,668
Other current liabilities	20,635	16,263	15,537	15,664
Current liabilities	29,383	28,307	27,766	28,095
Long-term debt	10,029	8,472	5,646	1,932
Pension provisions	3,952	2,385	2,433	2,481
Other long-term liabilities	32,956	33,316	33,852	34,412
Long-term liabilities	46,947	44,173	41,930	38,825
Shareholders equity	48,712	52,423	55,239	58,377
Minority interest	2,533	2,839	3,247	3,663
Total shareholders equity	51,245	55,262	58,486	62,040
Net debt	5,806	5,099	2,273	-1,441
Total net debt	27,157	24,908	22,392	18,994
Net working capital	8,650	8,743	9,050	9,383
Capital employed	66,454	67,589	68,450	68,783
Total assets	127,575	127,742	128,182	128,960

Per Share (EUR)	2006	2007E	2008E	2009E
EPS adjusted	6.63	7.27	7.75	8.47
EPS reported	7.67	9.24	8.14	8.90
CFPS	10.40	13.26	13.56	14.37
BVPS	70.39	77.85	82.03	86.69
DPS	3.35	3.75	4.00	5.34
Year-end nb of shares(m)	659.6	641.0	641.0	641.0
Av diluted nb of shares(m)	692.0	673.4	673.4	673.4

Valuation	2006	2007E	2008E	2009E
P/E	14.1	16.2	19.5	17.8
P/BV	1.3	1.5	1.8	1.7
P/CF	9.0	8.9	11.1	10.5
Dividend yield	3.6%	3.2%	2.6%	3.5%
FCF yield	4.8%	7.4%	5.4%	6.4%
EV/Sales	0.96	1.19	1.44	1.35
EV/EBITDA	6.1	7.2	8.8	8.0
EV/EBIT	8.8	10.0	12.1	10.8
EV/Capital employed	0.95	1.15	1.43	1.38

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E.ON

Hard as a rock

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Why the stock is a Buy

We have been bulls on E.ON since 2003, and all along the pricing rally. Having lagged (and seen so by us) RWE in the first phases of a decade-long structural shift in Europe's power market, we have seen E.ON taking the lead as of 2007 due to its younger and cleaner asset base (see our *Power age* report). E.ON did take the lead and we expect it not to give it away to RWE again.

We stick with our *Power age* philosophy (at least EUR70/MWh market prices sustainable long-run), but feel comfortable in drawing the point of its realisation nearer to 2011 from 2015 before. Seeing EUR70/MWh in company ARPUs requires market prices to reach our EUR70/MWh projection by the end of 2009 latest, as forward selling tends to delay the realisation of market prices by 1-2 years.

Our new forecast for E.ON's key ARPU in generation Central Europe is shown below. We also assume load shaping along these production volumes (playing volatility with the baseload and peakload segments) to be good enough for an additional euro.

E.ON Central Europe: ARPU by category (EUR/MWh), 2007-20E

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Generation ARPU before load shaping	47.00	55.00	60.00	65.00	70.00	71.05	72.12	73.20	74.30	75.41	76.54	77.69	78.85	80.04
Load shaping	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Total generation ARPU	48.00	56.00	61.00	66.00	71.00	72.05	73.12	74.20	75.30	76.41	77.54	78.69	79.85	81.04
YOY	26.3%	16.7%	8.9%	8.2%	7.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

Source: Landsbanki Kepler

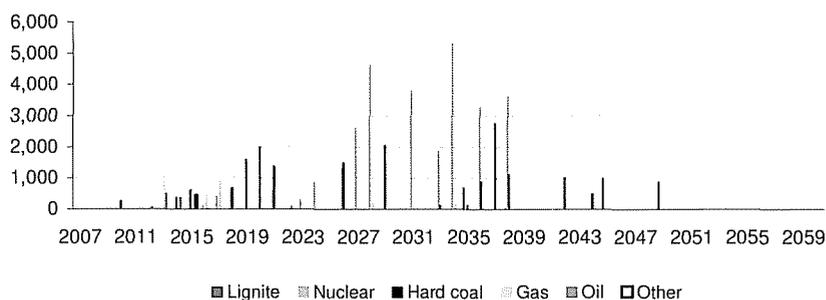
For more detail please see *European Utilities: built for speed*, 8 January 2008, published in parallel to this report.

Valuation

Running all our divisional DCFs over the full running century, we ensure that we cover any arising replacement requirements, which are not just fictitious chatter for why market prices are rising, but obviously an individual company requirement that needs to be accounted for.

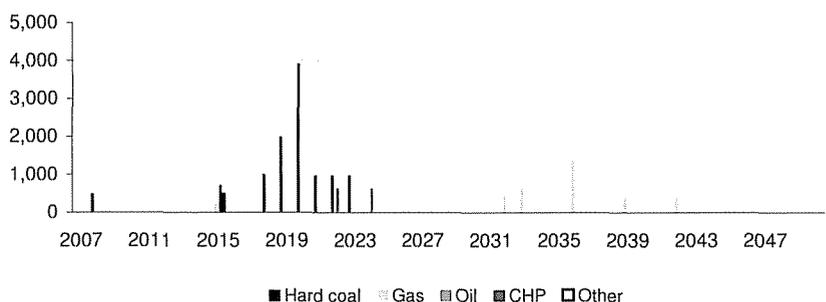
In E.ON's case, the replacement requirement distribution follows a bell-shaped curve over time, leaving it relatively well diversified during the cycle, and in a solid position to be a sustained beneficiary of higher prices.

E.ON Central Europe: Lifetime replacement requirements (EURm), 2008-2100



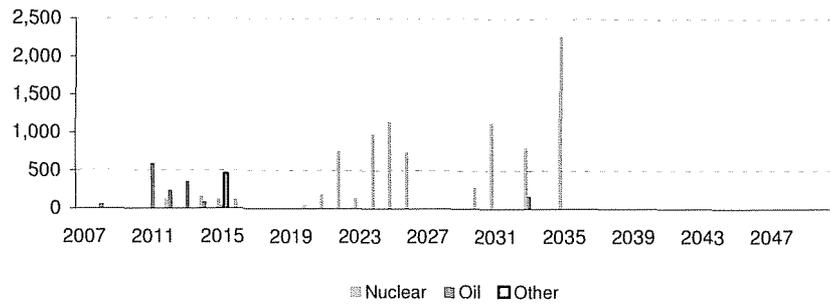
Source: Landsbanki Kepler

E.ON UK: Lifetime replacement requirements (EURm), 2008-2100



Source: Landsbanki Kepler

E.ON Nordic: Lifetime replacement requirements (EURm), 2008-2100



Source: Landsbanki Kepler

EON: Target valuation (EURm)		Value (EURm)																	implied '07E	
		'08E	'09E	'10E	'11E	'12E	'13E	'14E	'15E	'16E	'17E	'18E	'19E	'20E	/share % of total		Assumptions			
Central Europe	66,849	11.4	10.9	10.1	9.2	8.4	8.3	9.3	9.1	8.8	8.4	8.1	7.7	7.3	6.9	99.3	42.9%	Sum of segments		
o/w Central Europe West (sub-total)	51,153	9.6	9.3	8.6	7.9	7.3	8.6	8.5	8.5	8.5	8.7	8.3	8.2	8.1	8.0	7.9	76.0	32.9%	Sum of sub-segments	
o/w Central Europe West: Power	48,882	9.9	9.5	8.8	8.1	7.4	7.4	8.8	8.8	8.8	8.7	8.6	8.5	8.3	8.2	8.1	72.6	31.4%	Life-time DCF	
o/w Central Europe West: Gas	2,271	5.9	5.8	5.7	5.6	5.5	5.4	5.3	5.2	5.2	5.1	5.0	4.9	4.9	4.9	3.4	1.5%	DCF		
o/w Central Europe East	15,396	32.1	27.8	24.1	20.9	18.1	15.7	13.6	11.8	10.3	8.9	7.7	6.7	5.8	5.0	22.9	9.9%	DCF		
o/w Other/consolidation	300	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	0.4	0.2%	6x EBITDA		
Pan-European Gas	19,529	9.0	9.2	9.3	9.2	9.1	9.0	8.8	8.7	8.6	8.5	8.3	8.2	8.1	8.0	29.0	12.5%	Sum of segments		
o/w Up-/midstream	15,652	9.3	9.6	9.7	9.6	9.5	9.4	9.2	9.1	9.0	8.8	8.7	8.6	8.4	8.3	23.3	10.1%	DCF		
o/w Downstream shareholdings	3,687	7.9	8.1	8.1	8.0	7.9	7.8	7.7	7.6	7.5	7.4	7.3	7.2	7.0	6.9	5.5	2.4%	DCF		
o/w Other/consolidation	180	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	0.3	0.1%	6x EBITDA		
UK	8,505	5.4	5.5	5.2	4.9	4.8	4.7	6.4	6.4	6.3	6.2	6.1	6.0	5.9	5.8	12.6	5.5%	Sum of segments		
o/w Regulated business	7,736	12.1	12.0	11.8	11.6	11.4	11.3	11.1	10.9	10.8	10.6	10.5	10.3	10.1	10.0	11.5	5.0%	DCF		
o/w Non-regulated business	1,669	1.5	1.6	1.5	1.4	1.3	2.1	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9	2.5	1.1%	Life-time DCF		
o/w Other/consolidation	-900	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	-1.3	-0.6%	6x EBITDA		
Nordic	14,953	13.1	11.7	10.3	9.2	8.2	7.5	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.2	22.2	9.6%	Sum of segments		
o/w Regulated business	2,989	9.2	9.6	9.6	9.5	9.4	9.2	9.1	9.0	8.8	8.7	8.6	8.4	8.3	8.2	4.4	1.9%	DCF		
o/w Non-regulated business	12,037	14.5	12.3	10.4	9.1	8.0	7.1	6.5	6.4	6.3	6.2	6.1	6.0	5.9	5.8	17.9	7.7%	Life-time DCF		
o/w Other/consolidation	-73	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	-0.1	0.0%	6x EBITDA		
US Midwest	4,305	9.0	8.9	8.8	8.6	8.5	8.4	8.3	8.1	8.0	7.9	7.8	7.7	7.6	7.4	6.4	2.8%	Sum of segments		
o/w Regulated business	4,302	9.0	8.9	8.8	8.6	8.5	8.4	8.3	8.1	8.0	7.9	7.8	7.7	7.6	7.4	6.4	2.8%	DCF		
o/w Non-regulated business/other	3	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	0.0	0.0%	6x EBITDA		
Corporate center	-2,400	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0	4.9	4.9	-3.6	-1.5%	6x EBITDA		
Group total	11,1742	10.3	10.0	9.4	8.7	8.1	7.9	8.6	8.4	8.2	8.0	7.7	7.5	7.2	7.0	165.9	71.8%	Book		
Associates	8,143	19,059	2,401	1,405	8,731	4,210	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	Book		
Other financial assets	19,059	2,401	1,405	8,731	4,210	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	Book			
LT financial A/R, other financial assets	2,401	1,405	8,731	4,210	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	2.7%	2.7%	Market		
ST financial A/R, other financial assets	8,731	4,210	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	2.7%	2.7%	2.7%	2.7%	Market		
Liquid funds	4,210	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	2.7%	2.7%	2.7%	2.7%	2.7%	Market		
Treasury shares	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	Market		
Gross assets	155,691	12.1	5.2%	28.3	12.2%	3.6	1.5%	2.1	0.9%	13.0	5.6%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	Market		

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EON: Target valuation (EURm) (continued)		Value (EURm)		/share % of total	
LT financial liabilities	-10,222	Book	-15.2	Book	-6.6%
ST financial liabilities	-6,763	Book	-10.0	Book	-4.3%
Provisions for pensions	-2,385	Book	-3.5	Book	-1.5%
Provisions for nuclear waste management	-13,646	Book	-20.3	Book	-8.8%
o/w disposal of nuclear fuel rods	-5,085	Book	-7.6	Book	-3.3%
o/w asset retirement obligation	-8,988	Book	-13.3	Book	-5.8%
o/w waste disposal	-467	Book	-0.7	Book	-0.3%
o/w advance payments	894	Book	1.3	Book	0.6%
Provisions for environmental remediation	-530	Book	-0.8	Book	-0.3%
Provisions for environmental improvements	-1,772	Book	-2.6	Book	-1.1%
Other LT provisions	-1,476	50% of Book	-2.2	50% of Book	-0.9%
o/w personnel costs	-637	Book	-0.9	Book	-0.4%
o/w supplier-related contracts	0	Book	0.0	Book	0.0%
o/w customer-related contracts	0	Book	0.0	Book	0.0%
o/w US regulatory liabilities	-467	Considered working capital	0.0%	Considered working capital	0.0%
o/w miscellaneous	-372	Book	-0.7	Book	-0.3%
Value of equity implied	118,897	Residual	-0.6	Residual	-0.2%
Minorities	-2,839	Book	-4.2	Book	-1.8%
Value to shareholders implied	116,058	Book	172.3	Book	74.5%
Number of shares (m)	673.4	Fully diluted		Fully diluted	
Value per share (EUR)	172				

Source: Landsbanki Kepler

Catalysts and news flow

We expect Central European (EEX) power price to continue to rise from the EUR60/MWh levels currently to at least EUR70/MWh by end-2009. And rising prices are the clearest catalyst if the asset base (age, quality) poses no problems. The latter is not the case with E.ON.

Apart from that M&A activity could be a catalyst, but that will depend on the prevailing mood in the market. This sector has seen times with investors being overly risk-averse towards investment, and times, like the more recent ones, with investors being too excited about deals, in our view. We usually take a clinical stance toward planned investments as simply put there is rarely a free lunch available in the market. With E.ON, we continue to see its strength with existing, rather than with planned acquired assets.

Risks to our rating

Germany has a new cartel law, which moved powers from the sector to the cartel office as of the start of the year, the latter leaving no doubt it is willing to explore its new powers, which include the prohibition (reversal) of higher prices. We see no basis for the cartel office to cut E.ON's (or others') prices, but that does not necessarily mean it shares that opinion (in fact, it appears that it doesn't). And even though we would expect any lawsuit to finally be lost by the office, the damage would prevail first, as any price cut would remain effective until a court decides otherwise.

The regulator is likely to again cut grids fees and we have assumed a cut of 8% for transmission grids and 10% for distribution grids.

The union's have demanded a rate increase and we see little argument for E.ON to avoid a triple-digit euro million amount this year.

Our NAP III (beyond 2012) assumptions are tough with zero allocation for generators, but we find no other assumption consistent with our assumption that the full opportunity cost of CO₂ is found in wholesale prices. The latter is fundamentally and logically correct; any higher than zero allocation then is – at least theoretically – inconsistent. The EC already made clear it would cut (again) heavily allocations to the sector post 2012. Whether they prove consistent as theory demands remains to be seen. Any higher-than-zero allocation would add to our valuation of E.ON (all details see *Power age*, 16 July 2007).

Finally, we have also accounted for higher windfall taxes in the Nordic region in 2008 (EUR30m).

Financials

Divisional sales (EURm), 2004-20E

2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe	20,752	24,295	28,380	34,126	36,423	38,930	41,653	42,864	44,629	46,592	48,783	51,236	53,990	57,090	60,588	64,543
YOY	-	17.1%	16.8%	11.6%	7.8%	6.7%	6.6%	4.1%	4.4%	4.7%	5.0%	5.4%	5.7%	6.1%	6.5%	6.9%
o/w Central Europe West (sub-total)	17,576	20,408	23,256	26,670	28,499	30,075	31,652	33,231	34,134	34,641	35,156	35,679	36,210	36,749	37,295	37,850
YOY	-	16.1%	14.0%	14.7%	6.9%	5.2%	5.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Central Europe West: Power	14,597	16,945	18,885	23,170	24,947	26,469	27,992	29,516	30,307	30,757	31,214	31,677	32,148	32,626	33,111	33,603
YOY	-	16.1%	14.0%	14.7%	6.9%	5.5%	5.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Central Europe West: Gas	2,979	3,463	4,371	3,500	3,553	3,606	3,715	3,770	3,827	3,884	3,943	4,002	4,062	4,123	4,185	4,247
YOY	-	16.2%	26.2%	-19.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Central Europe East	1,877	2,618	3,469	4,000	4,612	5,318	6,132	7,071	8,153	9,401	10,841	12,500	14,413	16,619	19,163	22,097
YOY	1.877	2.618	3.469	4.000	4.612	5.318	6.132	7.071	8.153	9.401	10.841	12.500	14.413	16.619	19.163	22.097
YOY	-	39.5%	32.5%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%
o/w Other/consolidation	248	220	531	1,000	1,015	1,030	1,046	1,061	1,077	1,110	1,126	1,143	1,161	1,178	1,196	1,214
YOY	-	-	141.4%	11.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Energy taxes	1,051	1,049	1,124	0	0	0	0	0	0	0	0	0	0	0	0	0
YOY	-	-0.2%	7.1%	-	-	-	-	-	-	-	-	-	-	-	-	-
Pan-European Gas	13,227	17,914	24,987	21,324	20,708	20,406	20,671	20,939	21,122	21,530	21,853	22,181	22,851	23,194	23,542	23,895
YOY	13,227	17,914	24,987	21,324	20,708	20,406	20,671	20,939	21,122	21,530	21,853	22,181	22,851	23,194	23,542	23,895
YOY	-	35.4%	39.5%	-14.7%	-2.9%	-1.5%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Up-/midstream	9,274	13,380	18,868	16,367	16,076	16,290	16,507	16,728	16,979	17,234	17,492	17,754	18,021	18,291	18,565	18,844
YOY	9,274	13,380	18,868	16,367	16,076	16,290	16,507	16,728	16,979	17,234	17,492	17,754	18,021	18,291	18,565	18,844
YOY	-	44.3%	41.0%	-10.6%	-2.9%	-1.8%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Downstream shareholdings	1,358	1,848	4,773	5,160	5,052	5,113	5,175	5,238	5,316	5,396	5,477	5,559	5,643	5,727	5,813	5,900
YOY	1,358	1,848	4,773	5,160	5,052	5,113	5,175	5,238	5,316	5,396	5,477	5,559	5,643	5,727	5,813	5,900
YOY	-	36.1%	158.3%	8.1%	0.0%	1.2%	1.2%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Other/consolidation	-328	-424	-715	-700	-711	-721	-743	-754	-777	-789	-800	-812	-825	-837	-849	-859
YOY	-328	-424	-715	-700	-711	-721	-743	-754	-777	-789	-800	-812	-825	-837	-849	-859
YOY	-	-29.3%	68.6%	-2.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Energy taxes	2,923	3,110	2,061	0	0	0	0	0	0	0	0	0	0	0	0	0
YOY	2,923	3,110	2,061	0	0	0	0	0	0	0	0	0	0	0	0	0
YOY	-	6.4%	-33.7%	-	-	-	-	-	-	-	-	-	-	-	-	-
UK	8,490	10,176	10,569	11,050	11,376	11,712	12,001	12,181	12,364	12,550	12,738	12,929	13,123	13,320	13,519	13,928
YOY	8,490	10,176	10,569	11,050	11,376	11,712	12,001	12,181	12,364	12,550	12,738	12,929	13,123	13,320	13,519	13,928
YOY	-	19.9%	3.9%	4.6%	3.0%	2.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Regulated business	941	813	856	850	863	876	889	902	916	929	943	958	972	986	1,001	1,016
YOY	941	813	856	850	863	876	889	902	916	929	943	958	972	986	1,001	1,016
YOY	-	-13.6%	5.3%	-0.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Non-regulated business	7,788	9,553	10,081	10,700	11,021	11,352	11,635	11,810	11,987	12,167	12,349	12,535	12,723	12,914	13,107	13,304
YOY	7,788	9,553	10,081	10,700	11,021	11,352	11,635	11,810	11,987	12,167	12,349	12,535	12,723	12,914	13,107	13,304
YOY	-	22.7%	5.5%	6.1%	3.0%	2.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Other/consolidation	-239	-190	-368	-500	-508	-515	-523	-531	-539	-547	-555	-563	-572	-580	-588	-598
YOY	-239	-190	-368	-500	-508	-515	-523	-531	-539	-547	-555	-563	-572	-580	-588	-598
YOY	-	-20.5%	93.7%	35.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

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Divisional sales (EURm), 2004-20E (continued)	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Nordic	3,347	3,213	3,204	3,667	3,836	4,033	4,242	4,451	4,660	4,870	4,943	5,018	5,093	5,169	5,247	5,325	5,405
YOY	-	-4.0%	-0.3%	14.5%	4.6%	5.1%	5.2%	4.9%	4.7%	4.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Regulated business	850	725	703	682	682	692	703	713	724	735	746	757	768	780	792	804	804
YOY	-	-14.7%	-3.0%	-3.0%	0.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Non-regulated business	2,247	2,119	2,733	2,906	3,082	3,259	3,436	3,614	3,792	3,849	3,907	3,965	4,025	4,085	4,146	4,208	4,208
YOY	-	-5.7%	29.0%	6.3%	6.1%	5.7%	5.4%	5.2%	4.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Other/consolidation	-266	-17	-200	-206	-209	-212	-215	-219	-222	-225	-229	-232	-236	-239	-243	-243	-243
YOY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
o/w Energy taxes	382	377	432	451	475	499	524	548	573	582	590	599	608	617	627	636	636
YOY	-	-93.6%	107.75%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
US Midwest	1,718	2,045	1,947	1,750	1,776	1,803	1,830	1,857	1,885	1,914	1,942	1,971	2,001	2,031	2,061	2,092	2,124
YOY	-	19.0%	-4.8%	-10.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Regulated business	1,643	1,965	1,887	1,700	1,726	1,751	1,778	1,804	1,831	1,859	1,887	1,915	1,944	1,973	2,003	2,033	2,063
YOY	-	19.6%	-4.0%	-9.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Non-regulated business/other	75	80	60	50	51	52	53	54	55	55	56	57	58	59	60	61	61
YOY	-	6.7%	-25.0%	-16.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Corporate center	-792	-1,502	-3,328	-4,000	-4,060	-4,121	-4,183	-4,245	-4,309	-4,374	-4,439	-4,506	-4,574	-4,642	-4,712	-4,782	-4,854
YOY	-	-79.2%	-150.2%	-16.7%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
SALES	46,742	56,141	65,759	65,462	67,763	70,257	73,391	76,546	78,676	81,118	83,628	86,375	89,392	92,719	96,400	100,487	105,041
YOY	-	20.1%	17.1%	-0.5%	3.5%	3.7%	4.5%	4.3%	2.8%	3.1%	3.1%	3.3%	3.5%	3.7%	4.0%	4.2%	4.5%

Source: Landsbanki Kepler

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Divisional EBITDA (EURm), 2004-20E

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe	4,765	5,095	5,149	5,853	6,122	6,620	7,231	7,942	8,080	7,162	7,368	7,602	7,922	8,277	8,675	9,121	9,622
YOY	-	6.9%	1.1%	13.7%	4.6%	8.1%	9.2%	9.8%	1.7%	-11.4%	2.9%	3.2%	4.2%	4.5%	4.8%	5.1%	5.5%
Margin	23.0%	21.0%	18.1%	18.5%	17.9%	18.2%	18.6%	19.2%	18.9%	16.0%	15.8%	15.6%	15.5%	15.3%	15.2%	15.1%	14.9%
o/w Central Europe West (sub-total)	4,172	4,580	4,527	5,323	5,518	5,931	6,443	7,040	7,048	5,980	6,012	6,046	6,135	6,225	6,316	6,409	6,503
YOY	-	9.8%	-1.2%	17.6%	3.7%	7.5%	8.6%	9.3%	0.1%	-15.2%	0.5%	0.6%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	23.7%	22.4%	19.5%	20.0%	19.4%	19.7%	20.4%	21.2%	21.0%	17.5%	17.4%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%
o/w Central Europe West: Power	3,681	4,089	4,076	4,938	5,127	5,534	6,040	6,632	6,633	5,559	5,585	5,612	5,695	5,778	5,863	5,949	6,036
YOY	-	11.1%	-0.3%	21.2%	3.8%	7.9%	9.1%	9.8%	0.0%	-16.2%	0.5%	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	25.2%	24.1%	21.6%	21.3%	20.6%	20.9%	21.6%	22.5%	22.2%	18.3%	18.2%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
o/w Central Europe West: Gas	491	491	451	385	391	357	403	409	415	421	427	434	440	447	454	460	467
YOY	-	0.0%	-8.1%	-14.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	16.5%	14.2%	10.3%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
o/w Central Europe East	357	402	431	480	553	638	736	849	978	1,128	1,301	1,500	1,730	1,994	2,300	2,652	3,057
YOY	-	12.6%	7.2%	11.4%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%
Margin (pre energy taxes)	19.0%	15.4%	12.4%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
o/w Other/consolidation	236	113	191	50	51	52	52	53	54	55	55	56	57	58	59	60	61
YOY	-	-52.1%	69.0%	-73.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	95.2%	51.4%	36.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Pan-European Gas	1,353	1,430	2,282	2,181	2,122	2,093	2,121	2,148	2,177	2,209	2,242	2,276	2,310	2,345	2,380	2,416	2,452
YOY	-	5.7%	59.6%	-4.4%	-2.7%	-1.4%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	10.2%	8.0%	9.1%	10.2%	10.2%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
o/w Up-/midstream	1,042	1,177	1,921	1,686	1,637	1,608	1,629	1,651	1,673	1,698	1,723	1,749	1,775	1,802	1,829	1,857	1,884
YOY	-	13.0%	63.2%	-12.2%	-2.9%	-1.8%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	11.2%	8.8%	10.2%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
o/w Downstream shareholdings	315	255	370	464	455	455	460	466	471	478	486	493	500	508	515	523	531
YOY	-	-19.0%	45.1%	25.5%	-2.1%	0.0%	1.2%	1.2%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	23.2%	13.8%	7.8%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
o/w Other/consolidation	-4	-2	-9	30	30	31	31	32	32	33	33	34	34	35	35	36	36
YOY	-	-50.0%	350.0%	-433.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	1.2%	0.5%	1.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%
UK	1,549	1,533	1,784	1,581	1,555	1,646	1,742	1,783	1,810	1,319	1,339	1,359	1,380	1,400	1,421	1,443	1,464
YOY	-	-1.0%	16.4%	-11.4%	-1.6%	5.8%	5.9%	2.4%	1.5%	-27.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	18.2%	15.1%	16.9%	14.3%	13.7%	14.1%	14.5%	14.6%	14.6%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
o/w Regulated business	594	604	635	638	647	657	667	677	687	697	708	718	729	740	751	762	774
YOY	-	1.7%	5.1%	0.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	63.1%	74.3%	74.2%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
o/w Non-regulated business	993	942	1,278	1,093	1,060	1,143	1,232	1,266	1,285	786	798	810	822	835	847	860	873
YOY	-	-5.1%	35.7%	-14.4%	-3.0%	7.8%	7.8%	2.7%	1.5%	-38.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	12.8%	9.9%	12.7%	10.2%	9.6%	10.1%	10.6%	10.7%	10.7%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
o/w Other/consolidation	-38	-13	-129	-150	-152	-157	-157	-159	-162	-164	-166	-169	-172	-174	-177	-179	-182
YOY	-	-65.8%	892.3%	16.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	15.9%	6.8%	35.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

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Divisional EBITDA (EURm), 2004-20E (continued)

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Nordic	1,111	1,106	991	1,144	1,273	1,450	1,631	1,813	1,995	2,177	2,210	2,243	2,277	2,311	2,346	2,381	2,417
YOY	-	-0.5%	-10.4%	15.4%	11.3%	13.9%	12.5%	11.1%	10.1%	9.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	13.1%	10.9%	9.4%	10.3%	11.2%	12.4%	13.6%	14.9%	16.1%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%
o/w Regulated business																	
YOY		359	-	323	310	310	314	319	324	329	334	339	344	349	354	359	365
Margin		42.2%	-13.4%	3.9%	-4.2%	0.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Non-regulated business																	
YOY		749	-	833	976	1,152	1,329	1,506	1,684	1,862	1,890	1,918	1,947	1,976	2,006	2,036	2,066
Margin		33.3%	42.9%	46.0%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%
o/w Other/consolidation																	
YOY		-2	-	-12	-12	-13	-13	-13	-13	-13	-14	-14	-14	-14	-14	-15	-15
Margin		0.8%	500.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
US Midwest	522	543	569	477	484	491	498	506	513	521	529	537	545	553	561	570	578
YOY	-	4.0%	4.8%	-16.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	30.4%	26.6%	29.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.2%
o/w Regulated business																	
YOY		515	538	476	483	490	498	505	513	520	528	536	544	552	561	569	578
Margin		4.5%	5.9%	-16.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
o/w Non-regulated business/other																	
YOY		7	5	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Margin		9.3%	-28.6%	-150.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Corporate center	-256	-395	-379	-400	-406	-412	-418	-425	-431	-437	-444	-451	-457	-464	-471	-478	-485
EBITDA	9,044	9,312	10,396	10,835	11,150	11,888	12,805	13,767	14,144	12,952	13,245	13,567	13,976	14,422	14,912	15,451	16,047
YOY	-	3.0%	11.6%	4.2%	2.9%	6.6%	7.7%	7.5%	2.7%	-8.4%	2.3%	2.4%	3.0%	3.2%	3.4%	3.6%	3.9%
Margin	19.3%	16.6%	15.8%	16.6%	16.5%	16.9%	17.4%	18.0%	18.0%	16.0%	15.8%	15.7%	15.6%	15.6%	15.5%	15.4%	15.3%

Source: Landsbanki Kepler

Divisional EBITDA decl. (EURm), 2004-20E

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe	4,908	5,284	5,484	6,155	6,428	6,931	7,546	8,262	8,405	7,492	7,703	7,942	8,266	8,627	9,030	9,481	9,987
YOY	-	7.7%	3.8%	12.2%	4.4%	7.8%	8.9%	9.5%	1.7%	-10.9%	2.8%	3.1%	4.1%	4.4%	4.7%	5.0%	5.3%
Margin	23.7%	21.7%	19.3%	19.4%	18.8%	19.0%	19.4%	20.0%	19.6%	16.8%	16.5%	16.3%	16.1%	16.0%	15.8%	15.6%	15.5%
o/w Central Europe West (sub-total)	4,295	4,739	4,812	5,574	5,773	6,189	6,705	7,307	7,318	6,254	6,290	6,329	6,422	6,516	6,612	6,709	6,808
YOY	-	10.3%	1.5%	15.8%	3.6%	7.2%	8.3%	9.0%	0.2%	-14.5%	0.6%	0.6%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	24.4%	23.2%	20.7%	20.9%	20.3%	20.6%	21.2%	22.0%	21.8%	18.3%	18.2%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
o/w Central Europe West: Power	3,784	4,218	4,311	5,138	5,330	5,740	6,249	6,844	6,849	5,777	5,807	5,838	5,923	6,010	6,098	6,188	6,279
YOY	-	11.5%	2.2%	19.2%	3.7%	7.7%	8.9%	9.5%	0.1%	-15.6%	0.5%	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	25.9%	24.9%	22.8%	22.2%	21.4%	21.7%	22.3%	23.2%	22.9%	19.1%	18.9%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%
o/w Central Europe West: Gas	511	521	501	436	442	449	456	462	469	476	484	491	498	506	513	521	529
YOY	-	2.0%	-3.8%	-13.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	17.2%	15.0%	11.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
o/w Central Europe East	377	432	481	531	605	690	789	902	1,033	1,184	1,357	1,557	1,788	2,053	2,359	2,712	3,119
YOY	-	14.6%	11.3%	10.3%	14.0%	14.1%	14.3%	14.4%	14.5%	14.6%	14.7%	14.7%	14.8%	14.9%	14.9%	15.0%	15.0%
Margin (pre energy taxes)	20.1%	16.5%	13.9%	13.3%	13.1%	13.0%	12.9%	12.8%	12.7%	12.6%	12.5%	12.5%	12.4%	12.4%	12.3%	12.3%	12.2%
o/w Other/consolidation	236	113	191	50	51	52	52	53	54	55	55	56	57	58	59	60	61
YOY	-	-52.1%	69.0%	-73.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	95.2%	51.4%	36.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Pan-European Gas	1,772	1,939	2,839	2,823	2,774	2,755	2,792	2,830	2,868	2,911	2,955	2,999	3,044	3,090	3,136	3,183	3,231
YOY	-	9.4%	46.4%	-0.6%	-1.7%	-0.7%	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	13.4%	10.8%	11.4%	13.2%	13.4%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
o/w Up-/midstream	1,142	1,297	2,071	1,839	1,791	1,764	1,788	1,812	1,837	1,864	1,892	1,921	1,950	1,979	2,008	2,039	2,069
YOY	-	13.6%	59.7%	-11.2%	-2.6%	-1.5%	1.3%	1.3%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	12.3%	9.7%	11.0%	10.9%	10.9%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
o/w Downstream shareholdings	634	644	777	954	952	959	973	986	999	1,014	1,029	1,045	1,061	1,076	1,093	1,109	1,126
YOY	-	1.6%	20.7%	22.8%	-0.3%	0.8%	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	46.7%	34.8%	16.3%	18.5%	18.8%	19.0%	19.0%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%
o/w Other/consolidation	-4	-2	-9	30	30	31	31	32	32	33	33	34	34	35	35	36	36
YOY	-	-50.0%	350.0%	-433.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	1.7%	1.1%	2.4%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%	-6.0%
UK	1,592	1,550	1,790	1,601	1,576	1,666	1,763	1,804	1,831	1,341	1,361	1,382	1,403	1,424	1,445	1,467	1,489
YOY	-	-2.6%	15.5%	-10.6%	-1.6%	5.8%	5.8%	2.3%	1.5%	-26.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	18.8%	15.2%	16.9%	14.5%	13.8%	14.2%	14.7%	14.8%	14.8%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
o/w Regulated business	594	604	635	638	647	657	667	677	687	697	708	718	729	740	751	762	774
YOY	-	1.7%	5.1%	0.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	63.1%	74.3%	74.2%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
o/w Non-regulated business	1,036	959	1,284	1,113	1,081	1,164	1,253	1,287	1,306	808	820	833	845	858	871	884	897
YOY	-	-7.4%	33.9%	-13.3%	-2.9%	7.7%	7.7%	2.7%	1.5%	-38.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	13.3%	10.0%	12.7%	10.4%	9.8%	10.3%	10.8%	10.9%	10.9%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
o/w Other/consolidation	-38	-13	-129	-150	-152	-155	-157	-162	-162	-164	-166	-169	-172	-174	-177	-179	-182
YOY	-	-65.8%	892.3%	16.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	11.6%	3.1%	18.0%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%

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Divisional EBITDA decl. (EURm), 2004--20E (continued)

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Nordic	1,121	1,115	992	1,145	1,274	1,451	1,632	1,814	1,996	2,178	2,211	2,244	2,278	2,312	2,347	2,382	2,418
YOY	-	-0.5%	-11.0%	15.4%	11.3%	13.8%	12.5%	11.1%	10.0%	9.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	13.2%	11.0%	9.4%	10.4%	11.2%	12.4%	13.6%	14.9%	16.1%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%
o/w Regulated business	359	311	323	323	310	310	314	319	324	329	334	339	344	349	354	359	365
YOY	-	-13.4%	3.9%	-4.2%	0.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	42.2%	42.9%	46.0%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%
o/w Non-regulated business	758	693	834	834	977	1,153	1,330	1,507	1,685	1,863	1,891	1,919	1,948	1,977	2,007	2,037	2,068
YOY	-	-8.6%	20.3%	17.2%	18.1%	17.2%	15.3%	13.3%	11.8%	10.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	33.7%	32.7%	30.5%	33.6%	37.4%	40.8%	43.9%	43.9%	46.6%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%
o/w Other/consolidation	-2	-12	-12	-12	-12	-13	-13	-13	-13	-13	-14	-14	-14	-14	-14	-15	-15
YOY	-	500.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	0.8%	70.6%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
US Midwest	539	560	590	498	505	513	521	528	536	544	552	561	569	578	586	595	604
YOY	-	3.9%	5.4%	-15.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	31.4%	27.4%	30.3%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%
o/w Regulated business	520	543	577	483	490	498	505	513	520	528	536	544	552	561	569	578	586
YOY	-	4.4%	6.3%	-16.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	31.6%	27.6%	30.6%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%
o/w Non-regulated business/other	19	17	13	15	15	15	15	16	16	16	16	17	17	17	17	18	18
YOY	-	-10.5%	-23.5%	13.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	25.3%	21.3%	21.7%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%	29.4%
Corporate center	-191	-254	-342	-355	-360	-366	-371	-377	-382	-388	-394	-400	-406	-412	-418	-424	-431
EBITDA decl.	9,741	10,194	11,353	11,866	12,197	12,950	13,883	14,862	15,255	14,079	14,389	14,728	15,155	15,619	16,126	16,684	17,298
YOY	-	4.7%	11.4%	4.5%	2.8%	6.2%	7.2%	7.1%	2.6%	-7.7%	2.2%	2.4%	2.9%	3.1%	3.3%	3.5%	3.7%
Margin	20.8%	18.2%	17.3%	18.1%	18.0%	18.4%	18.9%	19.4%	19.4%	17.4%	17.2%	17.1%	17.0%	16.8%	16.7%	16.6%	16.5%

Source: Landsbanki Kepler

Divisional EBIT (EURm), 2004-20E (continued)	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Nordic	691	757	618	804	928	1,099	1,275	1,452	1,629	1,806	1,833	1,860	1,888	1,916	1,945	1,974	2,004
YOY	-	-9.6%	-18.4%	30.0%	15.5%	18.4%	16.0%	13.8%	12.2%	10.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	8.1%	7.4%	5.8%	7.3%	8.2%	9.4%	10.6%	11.9%	13.2%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%
o/w Regulated business	244	200	200	215	200	201	204	208	211	214	217	220	224	227	230	234	244
YOY	-	-18.0%	-7.0%	-7.0%	-0.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	28.9%	27.6%	30.6%	29.3%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%
o/w Non-regulated business	532	447	619	759	933	1,106	1,280	1,454	1,629	1,653	1,678	1,703	1,729	1,755	1,781	1,808	1,834
YOY	-	-16.0%	38.5%	22.6%	18.6%	15.7%	13.6%	12.0%	12.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	23.7%	21.1%	22.7%	26.1%	30.3%	33.9%	37.2%	40.2%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%
o/w Other/consolidation	-19	-29	-31	-31	-32	-33	-34	-35	-35	-34	-34	-35	-35	-36	-36	-37	-37
YOY	-	52.6%	6.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	7.1%	170.6%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
US Midwest	337	348	370	321	325	330	335	340	345	350	356	361	366	372	378	383	389
YOY	-	3.3%	6.3%	-13.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	19.6%	17.0%	19.0%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%
o/w Regulated business	334	346	380	323	332	337	342	348	353	358	363	369	374	380	386	392	392
YOY	-	3.6%	9.8%	-15.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	20.3%	17.6%	20.1%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
o/w Non-regulated business/other	3	2	-10	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-3	-3	-3	-3
YOY	-	-33.3%	-600.0%	-78.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	4.0%	2.5%	-16.7%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%
Corporate center	-296	-408	-400	-423	-429	-435	-442	-449	-455	-462	-469	-476	-483	-491	-498	-505	-513
EBIT	6,090	6,411	7,193	7,783	8,052	8,743	9,613	10,528	10,856	9,615	9,858	10,129	10,486	10,880	11,317	11,802	12,343
YOY	-	5.3%	12.2%	8.2%	3.5%	8.6%	9.9%	9.5%	3.1%	-11.4%	2.5%	2.8%	3.5%	3.8%	4.0%	4.3%	4.6%
Margin	13.0%	11.4%	10.9%	11.9%	11.9%	12.4%	13.1%	13.8%	13.8%	13.8%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.8%

Source: Landsbanki Kepler

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Divisional EBIT decl. (EURm), 2004-20E	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe	3,602	3,930	4,168	4,700	4,952	5,432	6,025	6,718	6,888	5,901	6,089	6,303	6,603	6,939	7,317	7,742	8,223
YOY	-	9.1%	6.1%	12.8%	5.4%	9.7%	10.9%	11.5%	1.8%	-13.7%	3.2%	3.5%	4.8%	5.1%	5.4%	5.8%	6.2%
Margin	17.4%	16.2%	14.7%	14.8%	14.5%	14.9%	15.5%	16.2%	16.0%	13.2%	13.1%	12.9%	12.8%	12.8%	12.8%	12.7%	12.7%
o/w Central Europe West (sub-total)	3,311	3,666	3,822	4,457	4,638	5,038	5,537	6,121	6,114	5,032	5,050	5,070	5,144	5,219	5,266	5,373	5,452
YOY	-	11.6%	3.4%	16.6%	4.1%	8.6%	9.9%	10.5%	-0.1%	-17.7%	0.4%	0.4%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	18.1%	16.4%	16.7%	16.3%	17.5%	18.4%	18.2%	14.7%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%
o/w Central Europe West: Power	2,996	3,389	3,550	4,236	4,414	4,810	5,306	5,876	5,866	4,790	4,805	4,821	4,891	4,963	5,035	5,109	5,183
YOY	-	13.1%	4.8%	19.3%	4.2%	9.0%	10.9%	-0.2%	-18.5%	0.9%	0.9%	0.9%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	20.5%	20.0%	18.8%	18.3%	17.7%	18.2%	19.0%	19.7%	15.8%	15.6%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
o/w Central Europe West: Gas	315	307	272	221	228	231	235	238	242	245	249	253	257	260	264	268	268
YOY	-2.5%	-1.4%	-18.7%	-18.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	20.5%	20.0%	18.8%	18.3%	17.7%	18.2%	19.0%	19.7%	15.8%	15.6%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
o/w Central Europe East	235	237	269	304	375	457	552	662	789	936	1,106	1,302	1,528	1,790	2,092	2,441	2,844
YOY	-	0.9%	13.5%	13.0%	23.3%	21.9%	20.8%	19.9%	19.2%	18.6%	18.1%	17.9%	17.4%	17.1%	16.9%	16.7%	16.5%
Margin (pre energy taxes)	12.5%	9.1%	7.8%	7.6%	8.1%	8.6%	9.0%	9.4%	9.7%	10.0%	10.2%	10.4%	10.6%	10.8%	10.9%	11.0%	11.2%
o/w Other/consolidation	56	-3	-61	-62	-63	-64	-65	-66	-67	-68	-69	-70	-71	-73	-74	-74	-74
YOY	-	-105.4%	-178.8%	-1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin (pre energy taxes)	22.6%	14.5%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%	-6.1%
Pan-European Gas	1,344	1,439	1,706	2,267	2,209	2,182	2,211	2,240	2,269	2,303	2,338	2,373	2,409	2,445	2,481	2,519	2,556
YOY	-	14.3%	7.6%	-2.5%	-1.2%	1.3%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	10.2%	8.6%	10.6%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
o/w Up-/midstream	862	988	1,684	1,447	1,393	1,361	1,378	1,396	1,415	1,436	1,457	1,479	1,501	1,524	1,547	1,570	1,593
YOY	-	14.6%	70.4%	-14.1%	-3.7%	-2.4%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	9.3%	7.4%	8.9%	8.6%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
o/w Downstream shareholdings	486	551	431	790	786	801	812	833	835	847	860	873	886	899	913	927	927
YOY	-	13.4%	-21.8%	83.4%	0.6%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	35.8%	29.8%	9.0%	15.3%	15.6%	15.6%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%	15.7%
o/w Other/consolidation	-4	-3	-9	30	30	31	32	32	33	33	34	34	35	35	36	36	36
YOY	-	-25.0%	200.0%	-43.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	1.2%	0.7%	1.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%
UK	1,017	963	1,229	1,078	1,045	1,128	1,217	1,250	1,268	1,270	1,281	1,293	1,305	1,317	1,329	1,341	1,353
YOY	-	-5.3%	27.6%	-12.3%	-3.1%	7.9%	2.7%	1.5%	-3.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	12.0%	9.5%	11.6%	9.8%	9.2%	10.1%	10.3%	10.3%	10.3%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
o/w Regulated business	446	452	488	503	510	518	526	534	542	550	558	566	575	584	592	601	610
YOY	-	1.3%	8.0%	3.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	47.4%	55.6%	57.0%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%
o/w Non-regulated business	626	540	869	728	690	767	850	878	891	933	933	939	945	951	957	963	969
YOY	-	-13.7%	60.9%	-16.2%	-5.3%	11.2%	10.9%	3.2%	1.5%	-56.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	8.0%	5.7%	8.6%	6.8%	6.3%	7.3%	7.4%	7.4%	7.4%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
o/w Other/consolidation	-55	-29	-128	-153	-155	-157	-160	-162	-164	-167	-169	-172	-175	-177	-180	-183	-185
YOY	-	-47.3%	341.4%	19.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	23.0%	15.3%	15.3%	19.3%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%

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Divisional EBIT decl. (EURm), 2004-20E (continued)

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Nordic	701	766	619	805	929	1,100	1,276	1,453	1,630	1,807	1,834	1,861	1,889	1,918	1,948	1,976	2,005
YOY	-	9.3%	-19.2%	30.0%	15.5%	18.4%	16.0%	13.8%	12.2%	10.9%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	8.3%	7.5%	5.9%	7.3%	8.2%	9.4%	10.6%	11.9%	13.2%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%
o/w Regulated business		244	200	215	200	198	201	204	208	211	214	217	220	224	227	230	234
YOY	-	-	-18.0%	7.6%	-7.0%	-0.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	28.7%	27.6%	30.6%	29.3%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%
o/w Non-regulated business	541	448	620	760	934	934	1,107	1,281	1,455	1,630	1,654	1,679	1,704	1,730	1,756	1,782	1,809
YOY	-	-	-17.2%	38.4%	22.6%	22.8%	18.6%	15.7%	13.6%	12.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	24.1%	21.1%	22.7%	26.2%	30.3%	34.0%	34.0%	37.3%	40.3%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%
o/w Other/consolidation	-19	-29	-31	-31	-32	-32	-32	-33	-33	-34	-34	-35	-35	-36	-36	-37	-37
YOY	-	-	52.6%	6.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	7.1%	170.6%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
US Midwest	354	365	391	342	347	352	357	363	368	374	379	385	391	397	403	409	415
YOY	-	3.1%	7.1%	-12.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	20.6%	17.8%	20.1%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%
o/w Regulated business	339	351	387	330	335	340	345	350	355	361	366	371	377	383	388	394	400
YOY	-	3.5%	10.3%	-14.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	20.6%	17.9%	20.5%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%
o/w Non-regulated business/other	15	14	4	12	12	12	13	13	13	13	13	14	14	14	14	14	15
YOY	-	-6.7%	-71.4%	201.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Margin	20.0%	17.5%	6.7%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%	24.1%
Corporate center	-231	-267	-363	-378	-383	-389	-395	-401	-407	-413	-419	-425	-432	-438	-445	-452	-458
EBIT decl.	6,787	7,293	8,150	8,814	9,099	9,806	10,691	11,622	11,967	10,742	11,002	11,290	11,665	12,077	12,531	13,035	13,595
YOY	-	7.5%	11.8%	8.2%	3.2%	7.8%	9.0%	8.7%	3.0%	-10.2%	2.4%	2.6%	3.3%	3.5%	3.8%	4.0%	4.3%
Margin	14.5%	13.0%	12.4%	13.5%	13.4%	14.0%	14.6%	15.2%	15.2%	13.2%	13.2%	13.1%	13.0%	13.0%	13.0%	13.0%	12.9%

Source: Landsbanki | Kepler

Divisional capital expenditure, incl. replacement (EURm), 2004-20e		2004	2005	2016E	2017E	2018E	2019E	2020E
Central Europe	of sales	1,388	1,519	3,039	3,076	3,345	3,884	3,884
		6.7%	6.3%	5.6%	5.4%	5.5%	6.0%	6.0%
	o/w Central Europe West sub-total	1,117	1,134	1,896	1,907	2,042	2,474	2,474
	o/w Central Europe West: Power	903	916	1,650	1,650	1,685	2,114	2,114
	o/w Central Europe West: Gas	215	218	245	249	257	261	261
	o/w Central Europe East	227	230	255	259	267	271	275
	o/w Central Europe Other/consolidation	-	-	127	128	130	132	134
Pan-European Gas	of sales	105	263	626	636	665	675	675
	o/w Up-/midstream	0.8%	1.5%	2.8%	2.8%	2.8%	2.8%	2.8%
	o/w Downstream	-	-	448	455	469	476	476
	o/w Downstream shareholdings	-	-	188	190	193	196	199
	o/w Other/consolidation	-	-	0	0	0	0	0
UK	of sales	511	565	598	607	625	644	644
		6.0%	5.6%	4.6%	4.6%	4.6%	3.2.6%	3.2.6%
	o/w Regulated business	-	-	154	156	161	163	163
	o/w Non-regulated business	-	-	441	447	454	461	461
	o/w Other/consolidation	-	-	3	3	3	3	3
Nordic	of sales	350	373	513	513	407	459	459
		10.5%	11.6%	10.1%	7.6%	7.6%	8.5%	8.5%
	o/w Regulated business	-	-	122	123	127	129	131
	o/w Non-regulated business	-	-	866	868	251	305	305
	o/w Other/consolidation	-	-	21	21	22	22	23
US Midwest	of sales	247	227	176	178	181	187	189
		14.4%	11.1%	8.9%	8.9%	8.9%	8.9%	8.9%
	o/w Regulated business	-	-	173	173	178	183	186
	o/w Non-regulated business/other	-	-	3	3	3	3	3
Corporate center		11	9	26	26	27	27	28
MAINTENANCE	of sales	2,612	2,956	4,893	4,232	5,958	7,255	9,778
		5.6%	5.3%	4.7%	4.7%	6.2%	7.2%	9.3%

Source: Landesbanki Kepler

Group profit and loss (EURm), 2004-20e

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe	20,752	24,295	28,380	31,670	34,126	36,423	38,830	41,363	42,864	44,629	46,592	48,783	51,236	53,990	57,090	60,588	64,543
Pan-European Gas	13,227	17,914	24,987	21,324	20,708	22,671	20,406	21,212	21,530	22,181	22,513	22,851	23,194	23,542	23,895	23,895	23,895
UK	8,490	10,176	10,569	11,050	11,376	12,001	12,181	12,364	12,550	12,738	12,929	13,123	13,320	13,519	13,722	13,928	13,928
Nordic	3,347	3,213	3,204	3,667	3,836	4,033	4,242	4,451	4,660	4,870	4,943	5,018	5,093	5,169	5,247	5,325	5,405
US Midwest	1,718	2,045	1,947	1,750	1,766	1,830	1,878	1,914	1,942	1,971	1,942	1,942	2,001	2,031	2,062	2,124	2,124
Corporate center	-792	-1,502	-3,328	-4,000	-4,060	-4,121	-4,183	-4,245	-4,309	-4,374	-4,439	-4,506	-4,574	-4,642	-4,712	-4,782	-4,854
SALES	46,742	56,141	65,759	65,462	67,763	70,257	73,391	76,546	78,676	81,118	83,628	86,375	89,392	92,719	96,400	100,487	105,041
Operating income and expenses	-37,698	-46,829	-55,363	-54,627	-56,613	-58,369	-60,586	-62,779	-64,533	-68,166	-70,384	-72,808	-75,417	-78,296	-81,488	-85,036	-88,994
EBITDA	9,044	9,312	10,396	11,150	11,888	12,805	13,767	14,144	12,952	13,245	13,567	13,976	14,422	14,912	15,451	16,047	16,047
YOY	-	3,0%	11,6%	4,2%	2,9%	6,6%	7,7%	7,5%	2,7%	18,0%	18,0%	16,0%	15,7%	15,6%	15,9%	3,6%	3,9%
Margin	-	-	16,6%	16,6%	16,5%	16,9%	17,4%	18,0%	18,0%	16,0%	15,8%	15,7%	15,6%	15,6%	15,4%	15,3%	15,3%
Associates	697	882	957	1,031	1,047	1,078	1,094	1,111	1,127	1,144	1,161	1,179	1,197	1,215	1,233	1,251	1,251
EBITDA decl.	9,741	10,194	11,353	11,866	12,197	12,950	13,883	14,862	15,255	14,079	14,389	14,728	15,155	15,619	16,126	16,684	17,298
Depreciation	-2,954	-2,901	-3,203	-3,052	-3,098	-3,144	-3,191	-3,239	-3,288	-3,337	-3,387	-3,438	-3,490	-3,542	-3,595	-3,649	-3,704
Central Europe	3,602	3,930	4,168	4,700	4,952	5,432	6,025	6,718	6,838	5,901	6,089	6,303	6,603	6,939	7,317	7,742	8,222
Pan-European Gas	1,344	1,536	2,106	2,267	2,209	2,182	2,211	2,240	2,269	2,303	2,338	2,373	2,409	2,445	2,481	2,519	2,556
UK	1,017	963	1,229	1,078	1,045	1,128	1,217	1,250	1,268	1,281	1,270	1,289	1,305	1,321	1,337	1,354	1,371
Nordic	701	766	619	805	929	1,100	1,276	1,453	1,630	1,834	1,861	1,889	1,918	1,946	1,976	2,005	2,054
US Midwest	354	365	391	342	347	352	357	363	368	374	379	385	391	397	403	409	415
Corporate center	-231	-267	-363	-378	-383	-389	-395	-401	-407	-413	-419	-425	-432	-438	-445	-452	-458
EBIT decl.	6,787	7,293	8,150	8,814	9,099	9,806	10,691	11,622	11,967	10,742	11,002	11,290	11,665	12,077	12,531	13,035	13,595
YOY	-	7,5%	11,8%	8,2%	3,2%	7,8%	9,0%	8,7%	3,0%	-10,2%	13,2%	13,1%	13,0%	13,0%	13,0%	4,3%	12,9%
Margin	14,5%	13,0%	12,4%	13,5%	13,4%	14,0%	14,6%	15,2%	15,2%	13,2%	13,2%	13,2%	13,1%	13,0%	13,0%	12,9%	12,9%
Net interest income	-1,031	-1,027	-1,081	-925	-925	-925	-925	-925	-925	-925	-925	-925	-925	-925	-925	-925	-925
Non-operating income	599	886	-1,936	1,026	0	0	0	0	0	0	0	0	0	0	0	0	0
o/w Net book gains	589	491	1,205	990	0	0	0	0	0	0	0	0	0	0	0	0	0
o/w Other	10	395	-3,141	36	0	0	0	0	0	0	0	0	0	0	0	0	0
EBT	6,355	7,152	5,133	8,915	8,174	8,880	9,766	10,697	11,041	9,817	10,077	10,365	10,740	11,151	11,606	12,110	12,669
YOY	-	12,5%	-28,2%	17,3%	-8,3%	10,0%	12,6%	13,3%	14,0%	-11,1%	12,0%	12,0%	12,0%	12,0%	12,0%	4,6%	12,1%
Margin	13,6%	12,7%	7,8%	13,6%	12,1%	12,6%	13,3%	14,0%	14,0%	12,1%	12,0%	12,0%	12,0%	12,0%	12,0%	12,1%	12,1%
Income taxes	-1,850	-2,261	323	-2,195	-2,138	-2,345	-2,606	-2,881	-2,979	-2,607	-2,680	-2,761	-2,868	-2,986	-3,117	-3,263	-3,425
Tax rate decl.	29,1%	31,6%	-6,3%	26,2%	26,4%	26,7%	26,9%	27,0%	26,6%	26,6%	26,6%	26,7%	26,8%	26,9%	26,9%	27,0%	27,0%
EAT	4,505	4,891	5,456	6,720	6,036	6,535	7,160	7,816	8,062	7,210	7,397	7,604	7,871	8,165	8,489	8,847	9,244
YOY	-	8,6%	11,6%	23,2%	-10,2%	8,3%	9,6%	9,2%	3,1%	-10,6%	2,6%	2,8%	3,5%	3,7%	4,0%	4,2%	4,5%
Margin	9,6%	8,7%	8,3%	10,3%	8,9%	9,3%	9,8%	10,2%	10,2%	8,9%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%
Minority interests	478	536	526	800	816	832	849	866	883	901	919	937	956	975	995	1,015	1,035
Net income from continuing operations	4,027	4,355	4,930	5,920	5,220	5,702	6,311	6,950	7,179	6,309	6,478	6,667	6,915	7,190	7,494	7,832	8,209
Net income from discontinued operations/other	312	3,052	127	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NET INCOME decl.	4,339	7,407	5,057	5,920	5,220	5,702	6,311	6,950	7,179	6,309	6,478	6,667	6,915	7,190	7,494	7,832	8,209
YOY	-	70,7%	-31,7%	1,7%	-11,8%	10,7%	10,1%	9,3%	8,6%	-12,1%	7,8%	2,9%	3,7%	4,0%	4,2%	4,5%	4,8%
Margin	9,3%	13,2%	7,7%	9,0%	9,0%	9,3%	8,1%	8,9%	9,1%	7,9%	7,9%	7,7%	7,7%	7,8%	7,8%	7,8%	7,8%

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	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Group profit and loss (EURm), 2004-20E (continued)																	
EPS from continuing operations	6.13	6.61	7.48	9.24	8.14	8.90	9.85	10.84	11.20	9.84	10.11	10.40	10.79	11.22	11.69	12.22	12.81
EPS from discontinued operations/other	0.48	4.63	0.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS decl.	6.61	11.24	7.67	9.24	8.14	8.90	9.85	10.84	11.20	9.84	10.11	10.40	10.79	11.22	11.69	12.22	12.81
YOY	-	70.0%	-31.8%	20.4%	-11.8%	9.3%	10.7%	10.1%	3.3%	-12.1%	2.7%	2.9%	3.7%	4.0%	4.2%	4.5%	4.8%
NET INCOME adj.	3,659	4,007	4,587	4,894	5,220	5,702	6,311	6,950	7,179	6,309	6,478	6,667	6,915	7,190	7,494	7,832	8,209
YOY	-	9.5%	14.5%	6.7%	6.6%	9.3%	10.7%	10.1%	3.3%	-12.1%	2.7%	2.9%	3.7%	4.0%	4.2%	4.5%	4.8%
Margin	7.8%	7.1%	7.0%	7.5%	7.7%	8.1%	8.6%	9.1%	9.1%	7.8%	7.7%	7.7%	7.7%	7.8%	7.8%	7.8%	7.8%
EPS adj.	5.29	5.79	6.63	7.27	7.75	8.47	9.37	10.32	10.66	9.37	9.62	9.90	10.27	10.68	11.13	11.63	12.19
YOY	-	9.5%	14.5%	9.6%	6.6%	9.3%	10.7%	10.1%	3.3%	-12.1%	2.7%	2.9%	3.7%	4.0%	4.2%	4.5%	4.8%
DPS	2.35	7.00	3.35	3.75	4.00	5.34	5.91	6.51	6.72	5.91	6.06	6.24	6.47	6.73	7.01	7.33	7.68
YOY	-	197.9%	-52.1%	11.9%	6.7%	33.4%	10.7%	10.1%	3.3%	-12.1%	2.7%	2.9%	3.7%	4.0%	4.2%	4.5%	4.8%
Payout E.ON AG	1.543	4.613	2.210	2.404	2.564	3.421	3.786	4.170	4.307	3.785	3.887	4.000	4.149	4.314	4.496	4.699	4.925
YOY	-	199.0%	-52.1%	8.8%	6.7%	33.4%	10.7%	10.1%	3.3%	-12.1%	2.7%	2.9%	3.7%	4.0%	4.2%	4.5%	4.8%
PO	42%	115%	48%	49%	49%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Outstanding NOSHm	656.4	659.0	659.6	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0	641.0
YOY	-	0.4%	0.1%	-2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Diluted NOSHm	692.0	692.0	692.0	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4	673.4
YOY	-	0.0%	0.0%	-2.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Landsbanki Kepler

Group cash flow (EURm), 2004-20E	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NET INCOME decl.	4,339	7,407	5,057	5,220	5,220	5,702	6,311	6,950	7,179	6,309	6,478	6,667	6,915	7,190	7,494	7,832	8,209
Minority interests	478	536	526	800	816	832	849	866	883	901	919	937	956	975	995	1,015	1,035
Net income from discont. operations	-312	-3,059	-1,27	94	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	3,051	3,030	3,751	3,052	3,098	3,191	3,239	3,288	3,337	3,387	3,438	3,490	3,542	3,595	3,649	3,704	3,704
Change in provisions	-574	-362	1,800	850	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in deferred taxes	58	390	-826	-15	0	0	0	0	0	0	0	0	0	0	0	0	0
Other non-cash items	25	90	-374	-109	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain (loss) on disposals	-462	-478	-1,322	-1,127	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in non-fixed assets/other	-763	-1,010	-1,291	-535	0	0	0	0	0	0	0	0	0	0	0	0	0
CASH FROM OPERATIONS	5,840	6,544	7,194	8,930	9,133	9,679	10,351	11,056	11,350	10,547	10,784	11,042	11,361	11,707	12,084	12,496	12,948
YOY	-	12.1%	9.9%	24.1%	2.3%	6.0%	6.9%	6.8%	2.7%	-7.1%	2.2%	2.4%	2.9%	3.0%	3.2%	3.4%	3.6%
Proceeds from disposals	2,606	6,294	3,954	745	0	0	0	0	0	0	0	0	0	0	0	0	0
Capex on intangible assets, PPE	-2,612	-2,956	-4,083	-3,052	-3,651	-3,144	-3,455	-3,830	-3,795	-5,313	-4,816	-7,136	-4,232	-4,893	-5,958	-7,255	-9,778
Acquisitions	-2,497	-985	-1,078	-651	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in securities	-385	-568	-771	1,672	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in financial receivables	2,506	-1,343	-2,523	233	0	0	0	0	0	0	0	0	0	0	0	0	0
INVESTING CASH FLOW	-382	442	-4,501	-1,053	-3,651	-3,144	-3,455	-3,830	-3,795	-5,313	-4,816	-7,136	-4,232	-4,893	-5,958	-7,255	-9,778
YOY	-	-215.7%	-1118%	-76.6%	246.8%	-13.9%	9.9%	10.8%	-0.9%	40.0%	-9.3%	48.2%	-40.7%	15.6%	21.8%	21.8%	34.8%
Change in capital, incl minorities	3	-26	1	27	0	0	0	0	0	0	0	0	0	0	0	0	0
Net payments for treasury stock	0	-33	28	-2,199	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	-1,598	-1,788	-4,856	-2,456	-2,656	-2,821	-3,683	-4,054	-4,443	-4,585	-4,069	-4,176	-4,295	-4,500	-4,621	-4,809	-5,018
Net debt issuance	-3,171	-4,611	-1,022	-707	-2,826	-3,714	-3,212	-7,225	-3,112	-649	-1,899	-270	-2,834	-1,505	-3,169	-3,169	-3,169
FINANCING CASH FLOW	-4,766	-6,458	-5,849	-5,335	-6,896	-6,535	-6,896	-7,225	-3,112	-649	-1,899	-270	-2,834	-1,505	-3,169	-3,169	-3,169
YOY	-	35.5%	-9.4%	-8.8%	2.7%	19.2%	5.5%	4.8%	4.6%	-30.7%	14.0%	-34.5%	82.5%	-10.1%	-14.5%	-39.5%	-39.5%
Net change in liquid funds	692	528	-3,156	2,542	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	529	-2,647	-552	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Liquid funds at beginning	10,795	12,016	9,897	6,189	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731
Liquid funds at end	12,016	9,897	6,189	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731
Opening net financial debt	8,800	6,161	3,405	5,806	5,099	2,273	-1,441	-4,654	-7,825	-10,938	-11,587	-13,486	-16,050	-18,414	-19,919	-20,350	-18,501
Cash from operations	-5,840	-6,544	-7,194	-8,930	-9,133	-9,679	-10,351	-11,056	-10,547	-10,784	-11,042	-11,361	-11,707	-12,084	-12,496	-12,948	-13,400
Maintenance capex	2,612	2,956	4,083	3,052	3,651	3,144	3,455	3,830	3,795	5,313	4,816	7,136	4,232	4,893	5,958	7,255	9,778
Expansion capex	2,497	985	1,078	651	0	0	0	0	0	0	0	0	0	0	0	0	0
Disposals	-2,606	-6,294	-3,954	-745	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	1,598	1,788	4,856	2,456	2,656	2,821	3,683	4,054	4,443	4,585	4,069	4,176	4,295	4,500	4,621	4,809	5,018
Other/consolidation	-900	4,353	3,532	2,809	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing net financial debt	6,161	3,405	5,806	5,099	2,273	-1,441	-4,654	-7,825	-10,938	-11,587	-13,486	-16,050	-18,414	-19,919	-20,350	-18,501	-18,501
Delta	-2,639	-2,756	2,401	-707	-2,826	-3,714	-3,212	-7,225	-3,112	-649	-1,899	-270	-2,834	-1,505	-3,169	-3,169	-1,849
Closing "economic net debt" decl.	-	-	18,233	17,526	14,700	10,986	7,773	4,602	1,489	840	-1,059	-789	-3,623	-5,987	-7,492	-7,923	-6,074
Cash from operations	5,840	6,544	7,194	8,930	9,133	9,679	10,351	11,056	11,350	10,547	10,784	11,042	11,361	11,707	12,084	12,496	12,948
Maintenance	-2,612	-2,956	-4,083	-3,052	-3,651	-3,144	-3,455	-3,830	-3,795	-5,313	-4,816	-7,136	-4,232	-4,893	-5,958	-7,255	-9,778
FCF	3,228	3,588	3,111	5,878	5,482	6,535	7,225	7,555	5,235	5,968	3,968	7,129	6,814	6,126	5,241	3,169	3,169
YOY	-	11.2%	-13.3%	89.0%	-6.7%	5.5%	4.8%	4.6%	-30.7%	14.0%	-34.5%	82.5%	-4.4%	-10.1%	-14.5%	-39.5%	-39.5%
Dividends	-1,598	-1,788	-4,856	-2,456	-2,656	-2,821	-3,683	-4,054	-4,443	-4,585	-4,069	-4,176	-4,295	-4,500	-4,621	-4,809	-5,018
FCF after dividends	1,630	1,800	-1,745	3,422	2,826	3,714	3,212	-4,054	-4,443	-4,585	-4,069	-4,176	-4,295	-4,500	-4,621	-4,809	-5,018
Source: Landsbanki Keplir																	

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Goodwill	14,454	15,363	15,320	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008	15,008
Other intangible assets	3,788	4,125	3,894	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990	3,990
PP&E	43,563	41,323	42,484	43,838	44,392	44,656	45,246	45,754	47,729	49,158	52,856	53,599	54,950	57,312	60,918	66,993	66,993
Associates	9,936	9,689	7,770	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143	8,143
Other financial assets	7,327	16,119	20,679	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059	19,059
Financial A/R, other financial assets	-	2,059	2,631	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401	2,401
Operating A/R, other	-	3,530	2,463	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027	3,027
Deferred tax assets	1,551	1,706	1,247	897	897	897	897	897	897	897	897	897	897	897	897	897	897
NON-CURRENT ASSETS	80,619	93,914	96,488	96,363	96,917	96,917	97,181	97,771	98,279	100,254	101,683	105,381	106,124	107,475	109,837	113,443	119,518
Inventories	2,647	2,457	4,199	4,312	4,464	4,628	4,834	5,042	5,182	5,343	5,509	5,690	5,888	6,107	6,350	6,619	6,919
Financial A/R, other	2,124	1,060	1,477	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405	1,405
Trade A/R	6,534	8,179	9,756	9,712	10,053	10,423	10,888	11,356	11,672	12,035	12,407	12,815	13,262	13,756	14,302	14,908	15,584
Other A/R, other	9,569	10,374	8,585	6,388	6,613	6,856	7,162	7,470	7,678	7,916	8,161	8,429	8,723	9,048	9,407	9,806	10,250
Liquid funds	12,016	9,897	6,189	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731	8,731
Assets held for sale	553	681	611	831	31,266	32,043	33,020	34,004	34,668	35,430	36,213	37,069	38,010	39,047	40,195	41,469	42,889
CURRENT ASSETS	33,443	32,648	31,087	31,379	31,266	32,043	33,020	34,004	34,668	35,430	36,213	37,069	38,010	39,047	40,195	41,469	42,889
TOTAL ASSETS	114,062	126,562	127,575	127,742	128,182	128,960	130,201	131,776	132,947	135,684	137,896	142,450	144,133	146,522	150,032	154,912	162,407
YOY	-	11.0%	0.8%	0.1%	0.3%	0.6%	1.0%	1.2%	0.9%	2.1%	1.6%	3.3%	1.2%	1.7%	2.4%	3.3%	4.8%
Capital stock	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799	1,799
Other equity	31,761	42,685	46,913	50,624	53,440	56,578	59,467	62,631	65,640	67,642	70,334	73,114	76,029	79,070	82,250	85,586	89,095
SHAREHOLDERS' EQUITY	33,560	44,484	48,712	52,423	55,239	58,377	61,266	64,430	67,439	69,441	72,133	74,913	77,828	80,869	84,049	87,385	90,894
Minorities	4,144	4,734	2,533	2,839	3,247	3,663	4,088	4,521	4,962	5,413	5,872	6,341	6,819	7,306	7,804	8,311	8,829
EQUITY TOTAL	37,704	39,218	51,245	55,262	58,486	62,040	65,304	68,951	72,448	76,054	81,254	84,647	88,175	91,853	95,696	99,723	104,296
YOY	-	38.9%	40.2%	43.3%	45.6%	48.1%	50.2%	52.3%	54.5%	56.6%	57.0%	58.7%	60.2%	61.2%	61.8%	61.4%	61.4%
of total	33.1%	38.9%	40.2%	43.3%	45.6%	48.1%	50.2%	52.3%	54.5%	56.6%	57.0%	58.7%	60.2%	61.2%	61.8%	61.4%	61.4%
Financial liabilities	13,265	10,555	10,029	8,472	5,646	1,932	-1,281	-4,452	-7,565	-8,214	-10,113	-9,843	-12,677	-15,041	-16,546	-16,977	-15,128
Operating liabilities	-	6,365	5,432	5,388	5,469	5,551	5,634	5,719	5,804	5,891	5,980	6,070	6,161	6,253	6,347	6,442	6,539
Provisions for pensions	-	-	8,290	3,962	2,385	2,433	2,481	2,531	2,582	2,633	2,686	2,740	2,794	2,850	2,907	2,965	3,025
Deferred tax liabilities	6,605	7,929	7,063	6,698	6,798	6,900	7,004	7,109	7,216	7,324	7,434	7,545	7,658	7,773	7,890	8,008	8,128
NON-CURRENT LIABILITIES	-	52,251	46,947	44,173	41,930	38,825	36,252	33,729	31,237	31,228	29,980	30,917	28,770	27,113	26,335	26,656	29,282
Financial liabilities	7,036	3,807	3,443	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763
Trade A/P	3,627	5,272	5,305	5,281	5,467	5,668	5,921	6,175	6,347	6,544	6,747	6,968	7,212	7,480	7,777	8,107	8,474
Operating A/P, deferred income	-	8,232	14,426	9,266	9,484	9,477	9,574	9,668	9,582	9,543	9,509	9,509	9,548	9,633	9,772	9,973	10,246
Other provisions	1,102	6,951	5,594	5,926	6,053	6,186	6,337	6,490	6,617	6,753	6,892	7,039	7,193	7,358	7,532	7,719	7,919
Liabilities of disposal groups	54	831	615	1,071	0	0	0	0	0	0	0	0	0	0	0	0	0
CURRENT LIABILITIES	11,819	25,093	29,383	28,307	27,766	28,095	28,595	29,096	29,309	29,603	29,911	30,279	30,716	31,234	31,844	32,561	33,402
YOY	-	11.0%	0.8%	0.1%	0.3%	0.6%	1.0%	1.2%	0.9%	2.1%	1.6%	3.3%	1.2%	1.7%	2.4%	3.3%	4.8%
TOTAL EQUITY AND LIABILITIES	114,062	126,562	127,575	127,742	128,182	128,960	130,201	131,776	132,947	135,684	137,896	142,450	144,133	146,522	150,032	154,912	162,407
Net financial gearing	169%	7%	11%	77.8	82.0	86.7	91.0	95.7	100.1	103.1	107.1	111.2	115.6	120.1	124.8	129.8	135.0
Total gearing (incl. provisions)	90%	58%	53%	45%	38%	31%	25%	19%	14%	11%	8%	5%	4%	4%	4%	4%	6%

Source: Landbanki Kepler

Group enterprise value (EURm), 2004-20E

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
LT financial liabilities	13,265	10,555	10,029	8,472	5,646	1,932	-1,281	-4,452	-7,565	-8,214	-10,113	-9,843	-12,677	-15,041	-16,546	-16,977	-15,128
ST financial liabilities	7,036	3,807	3,443	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763	6,763
ST financial A/R, other financial assets	-2,124	-1,060	-1,477	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405	-1,405
Liquid funds	-12,016	-9,897	-6,189	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731	-8,731
Net financial debt	6,161	3,405	5,806	5,099	2,273	-1,441	-4,654	-7,825	-10,938	-11,587	-13,486	-13,216	-16,050	-18,414	-19,919	-20,350	-18,501
Provisions for pensions	8,589	8,290	3,962	2,385	2,433	2,481	2,531	2,582	2,633	2,686	2,740	2,794	2,850	2,907	2,965	3,025	3,085
Provisions for nuclear waste management	13,481	13,362	13,646	13,646	13,853	14,062	14,275	14,491	14,711	14,934	15,160	15,389	15,622	15,859	16,099	16,343	16,591
Provisions for environmental remediation	337	309	530	530	538	546	554	563	571	580	589	598	607	616	625	635	644
Provisions for environmental improvements	1,657	1,725	1,772	1,772	1,800	1,829	1,858	1,887	1,917	1,948	1,979	2,010	2,042	2,075	2,108	2,142	2,176
50% of other LT provisions	3,654	1,579	1,441	1,476	1,496	1,517	1,538	1,559	1,581	1,602	1,624	1,647	1,669	1,692	1,715	1,739	1,763
Net debt, incl. provisions	33,879	28,670	27,157	24,908	22,392	18,994	16,103	13,257	10,476	10,163	8,606	9,222	6,742	4,736	3,595	3,533	5,758
Mcap	40,097	50,612	64,491	79,515	101,664	101,664	101,664	101,664	101,664	101,664	101,664	101,664	101,664	101,664	101,664	101,664	101,664
Minority interest	4,144	4,734	2,533	2,839	3,247	3,663	4,088	4,521	4,962	5,413	5,872	6,341	6,819	7,306	7,804	8,311	8,829
Associates	-9,936	-9,689	-7,770	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143	-8,143
Other financial assets	-7,327	-16,119	-20,679	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059	-19,059
LT financial A/R, other financial assets	-	-2,059	-2,631	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401	-2,401
EV	60,857	56,149	63,101	77,659	97,700	94,718	92,251	89,838	87,499	87,636	86,538	87,624	85,621	84,103	83,459	83,905	86,647

Source: Landsbanki | Kepler

Disclosures

Disclosure checklist – Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
E ON	DE0007614406	nothing to disclose	EUR	147.7
RWE Ord	DE0007037129	nothing to disclose	EUR	97.5
RWE Pref.	DE0007037145	nothing to disclose	EUR	81.7

Source: Factset closing prices of 04/01/2008

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Buy	61.3%	0.0%
Hold	9.8%	0.0%
Reduce	20.7%	0.0%
Not Rated/Under Review/Accept Offer	8.2%	0.0%
Total	100.0%	0.0%

Source: Landsbanki Kepler

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Rating ratio Landsbanki Islands hf. Q3 2007

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Rating breakdown	A	B
Buy	42.4%	0.0%
Hold	57.6%	0.0%
Reduce	0.0%	0.0%
Not Rated/Under Review/Accept Offer	0.0%	0.0%
Total	100.0%	0.0%

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Rating breakdown	A	B
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Hold	29.5%	28.9%
Reduce	8.3%	0.0%
Not Rated/Under Review/Accept Offer	2.9%	5.3%
Total	100.0%	100.0%

Source: Landsbanki Securities (UK) Limited

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